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'THE NATIONAL SURVEY OF INDIAN CONSUMERS'

ice 360°

People Research on
India's Consumer Economy
A not-for-profit Research Centre

ice 360°

About PRICE

- PRICE is an independent, not-for-profit research centre, a 'think tank' and 'facts tank' engaged in building and disseminating seminal knowledge and insights about India's Macro Consumer Economy and Citizen's Environment, for use in formulating public policy and in shaping business strategy.

- The core of PRICE's work focuses on "how India, earns, spends, saves, lives, thinks, accesses public goods and amenities".

- PRICE is committed to generating longitudinal data that will allow for realistic projections of India's household incomes, consumption expenditures and savings for the coming decade.

- PRICE's work also aims at enriching policy targeting via insights on key socio-economic, 'state of nation' and 'inclusion' indicators.

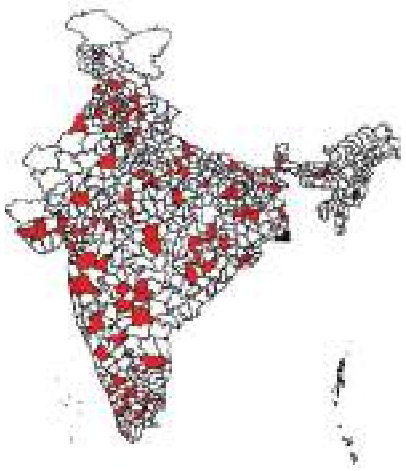
The National Survey of Indian Consumers

The analysis and observations presented in this report are based on the results of a pan-India ICE 360° Survey which captured the consumption behaviour of Indian households during 2013-14 fiscal year. This survey was conducted by People Research on India's Consumer Economy (PRICE) and consisted of an all-India representative sample of over 20,195 households with chief wage earners selected from a household listing of over 100,000 covering 21 major states.

ICE 360° SURVEY, 2014 is the first household level primary survey conducted by PRICE covering an all-India representative sample of 20,195 households with earners selected from a listing of 1,01,534 households. The survey primarily focussed on providing household level, insightful and relevant information on economic and social well-being of Indian households including social inclusion, especially access to public goods and infrastructure, for the public domain to aid in advocacy and evaluation of the effectiveness and appropriateness of economic and public policy. Some of the key themes of the Indian consumer economy, captured by the survey, included household level income, expenditure, saving patterns, social inclusion, and financial optimism and life style indicators. One of the key focus areas of the survey was to provide a better and sharper, understanding of 'Middle India' by defining it and profiling it; and assessing the impact it can potentially have in boosting India's future prospects, as a successful and stable country, as a growing economy, as a preferred destination for future developmental interventions such as FDI etc. The survey had two other riders as two additional modules; the first on 'Gold purchase and investment behaviour of Indian households' and the second on 'Two-wheeler ownership and future purchase intention of Indian households'.

The following pages provide a detailed overview of the key findings from the ICE 360° Survey of 2014 and insights into Consumer India.

Distribution of sample districts



Sample coverage

Feature	Distribution	ICE 360° Survey
RURAL SAMPLE		
	Districts	67
	Villages	300
	Households listed	30,048
	Households selected	6,000
URBAN SAMPLE		
	Towns	81
	UFS blocks	700
	Households listed	71,500
	Households selected	14,200

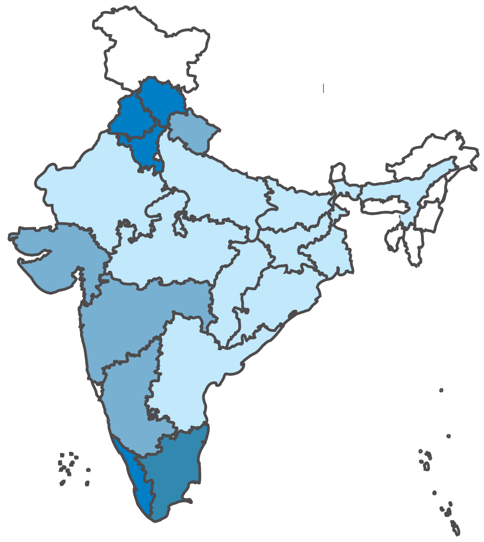
- Pan-India survey covered 21 major states.
- Sampling design: Probability sampling
- Sampling frame: Listing of over 101,534 households (500,000 individuals), distributed over 67 districts and 81 towns
- Main Survey: 20,195 (Rural: 6,000, Urban:14,195 HHDs)
- Survey period : August-November 2014
- Respondents: Chief Wage Earner
- Questionnaire based approach: Face-to-face interview

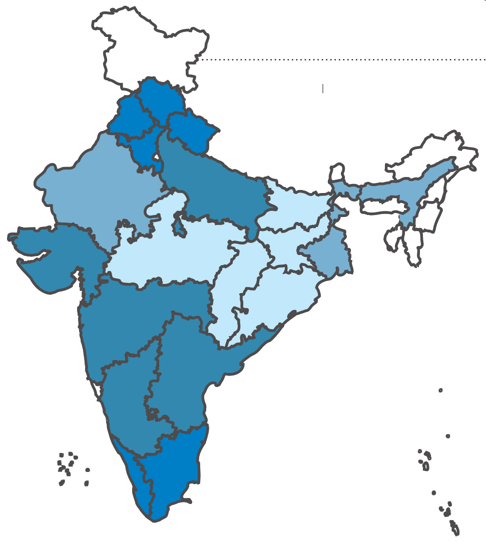
A country divided defines this nation

The southern and western states contribute to 49% of our GDP. Including Punjab and Haryana, this jumps to over 55%. In many of the social capital indicators, these states are placed well above the national average. This seems to indicate that the level of prosperity enjoyed by residents from these states is likely to be more than the rest of India. It is very difficult to objectively assess such a claim but nevertheless, an attempt made by PRICE to classify all the districts of India based on the current and future development potential clearly indicates that the greater concentration of districts that hold greater promise are mostly located in these states. The central and eastern provinces, in their rigorous pursuance of caste-based politics since independence,have not been able to offer their citizens a better quality of life.

The states of Punjab, Haryana and Himachal Pradesh in the north and Kerala in the south have the largest concentrations of developed rural districts, while on the other hand 10 of the 21 major states have less than 6% of their districts as developed rural

- >70% districts are developed districts
- 40-70% districts are developed districts
- 10-40% districts are developed districts
- <10% districts are developed districts



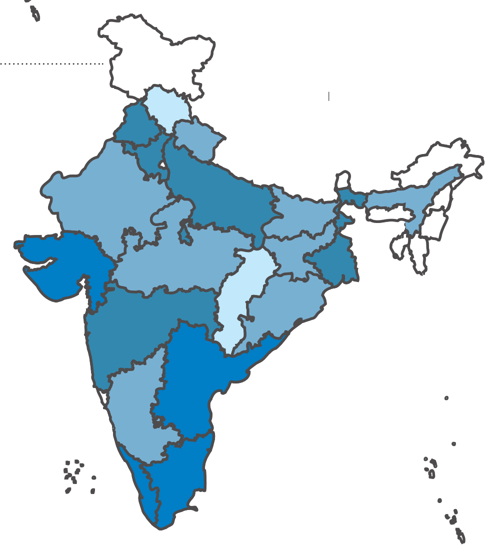


Just 8 of India's major states account for 208 of the 315 underdeveloped rural districts of the country and all of them are located in central and eastern India.

- Highest share of underdeveloped districts
- High share of underdeveloped districts
- Moderate share of underdeveloped districts
- Least share of underdeveloped districts

Three southern states and Gujarat have followed a textbook urbanisation model with the largest proportion of districts with at least one Boom Town or Niche City - most of the Central and Eastern Indian states have unipolar urban development

- Planned urbanisation
- Limited decentralised urbanisation
- Uni-popular urbanisation
- Limited urbanisation



FOR THE ICE 360° SURVEY of 2014 PRICE created its own sampling frame of over 100,000 households across 21 major states. To generate a sample of households to represent India's diversity,all districts were grouped into seven economic clusters based on developmental indicators generated from Census 2011 and NSS CES, 2011, separately for rural and urban areas. In case of urban India, a combination of three identified criteria namely, size of population, rate of urbanization, and per capita household expenditure were used to categorise all districts into four urban clusters: Metros, the largest cities in terms of population (>5 million) and overall consumer markets; Boom towns, the next set of big-population cities (2.5 to 5 million) with high expenditure per household; Niche cities, smaller in terms of overall population (1 to 2.5 million) but still hit well above their weight in spending per household; and Other urban towns (smaller cities), semi urban or urban settlements of less than 1 million people.

Rural India, on the other hand, is more homogeneous than urban. For better rural representation, a District Development Index was computed for all 631 districts with some rural settlements as per Census 2011 using a set of 21 developmental indicators on demographics, literacy, financial inclusion, access to basic amenities, assets penetration, etc. available from Census 2011. Using the overall index value, all districts were grouped into three economic rural clusters irrespective of states.These are Developed Rural, all the top 25 per cent districts; Progressive Rural/Emerging Rural, next 25 per cent; and the remaining 50 per cent districts under Underdeveloped Rural.

Based on the distribution of developed rural and underdeveloped rural and their share to the total districts within each of the 21 states being studied, we could draw a conclusion as to which states have done enough to realize the fruits of their rural development initiatives and those that have been left behind.

Having fertile land with natural irrigation, while conducive to agricultural growth, does not necessarily translate to a developed countryside. Rural prosperity comes from many state level initiatives including irrigation extension, proper marketing networks, better transport networks, and higher rural literacy. It is assumed that the relative prosperity of the rural community would be reflective of their ownership of assets and conditions in which they live. Larger states with high agricultural output in absolute terms will remain disadvantaged if there are more mouths to feed and distress selling at farm gates, while on the other hand states where farming is more organized and rural trade networks more robust will see higher levels of prosperity among its people.

On the other side is the concept of effective urban development as a means to nation building. Nearly 31.16 per cent of India's population (377 million) live in urban areas, as per 2011 Census.Decentralisation is the process of strategic development in existing urban or regional "growth centres" to stem the growth in congested super metros into areas with larger capacities for growth. Urbanisation is the way of the world, which brings both benefits and problems. India has not done enough in managing urbanisation efficiently and over the decades, the highly skewed concentration of opportunities in the metros and some state capitals have resulted in unidirectional rural-urban migration that have left these cities on the verge of infrastructural collapse.

This has also meant that large parts of the rural hinterland, which classically should have benefited from the trickle-down effects of decentralized planning remained unfulfilled. However, this is now changing with projects like JNNURM,Smart Cities, AMRUT, NUIS and capacity building of Urban Local Bodies getting prime importance from the powers-that-be. The emphasis on improving the urban landscape and raising the growth potential of second and third tier cities points has significant implications for India's development story.

The relative performance of 21 major states in successfully taking forward the decentralized growth agenda can be measured through the distribution of Boom Towns and Niche Cities within each of these states.

Snapshots of India's household income distribution

The ICE 360° Survey of 2014 undertaken by PRICE provides crucial insights into how 270.1 million Indian households earned their living in 2013-14, how income was distributed over space and how variables like education, gender, occupation and number of earners per family influenced household and per capita earning capacities.

DESPITE TWO DECADES of economic growth, the gap between the top and bottom of the income pyramid remains substantial. The ICE 360° Survey of 2014 reveals that the top decile earned on average nearly 10 times more than the bottom decile. Yet surprisingly, in the 2013-14 period, households in the bottom most-per capita income quintile experienced a CAGR (since 2004-05 at 2013-14 prices) which is nearly 3.5 times as much as the top most quintile.

Income disparity is even more pronounced when average household income is segregated by geography and education level. According to the survey findings, the income gap between urban and rural households becomes more pronounced as incomes of graduates and illiterates alike are significantly higher in urban areas than in rural. In fact, urban income among post-graduates and professionals is as much as 40% higher than their rural counterparts. However, while the urban trend shows a consistent positive correlation between increasing education level with income growth, the same dynamics don't apply to rural India where there is no consistent correlation between the two. Evidence even shows that in rural areas, a worker with vocational training or technical diploma earns higher than a general graduate.

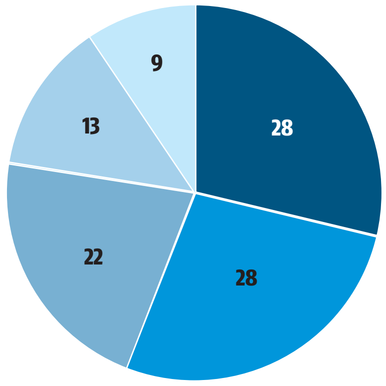
With self-employment contributing to nearly half the total income of India, it raises the possibility that in rural areas a vocational degree as opposed to a graduate degree would give a worker a higher propensity to engage in self-employment, as against waiting for an elusive 'salaried' job in the public sector domain. This claim is further supported by evidence that self-employment in non-farm activities and regular salary/wage jobs will be drivers of high income growth in future. Despite constituting a lower share of households (both at 20%), non- farm activities has a 26% share in income and regular salary/wage jobs have a 31% share in overall household income. With rural India having a 55% share in overall income, it is safe to assume that a significant proportion of rural India is making a rapid shift to non-farm activities which yield greater income dividends.

One of the more interesting paradoxes thrown up by the ICE 360° Survey of 2014 is that despite there being a linear relationship between the size of household and the number of earners (bigger the household, more are the number of earners), this relationship does not necessarily translate to higher per capita income at the household level, or for that matter, significantly higher household incomes. Findings show that with an average household size of 4.2 members, single earner households have a higher per capita income (₹ 42,535) than multiple earner households (₹ 39,442) which have an average household size of 7.5 members. This leads us to speculate that because many poor/marginalised households are typically characterised by large family sizes, it requires every available hand to contribute to the meagre family income as a survival strategy.

Finally, the survey also highlights that there continues to be a great deal of disparity in participation of men and women as earners in the workforce. While 76% (325.7 million) of males aged 16-59 are active earners, the percentage drops to only 18% (or 69.1 million) for females. The disparity is equally stark when it comes to average annual incomes with a working male earning ₹132,000 and a working female earning ₹43,700 per annum.

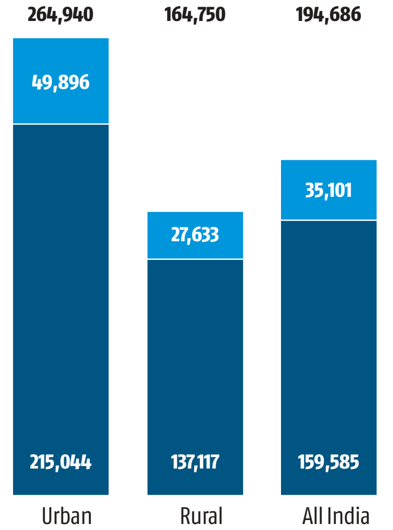
Average annual growth of household income has been the highest for the bottom quintile but because of its low base this 'statistic' in no way signifies any significant reversal of their fortunes

CAGR (between 2004-05 and 2013-14 at current prices)



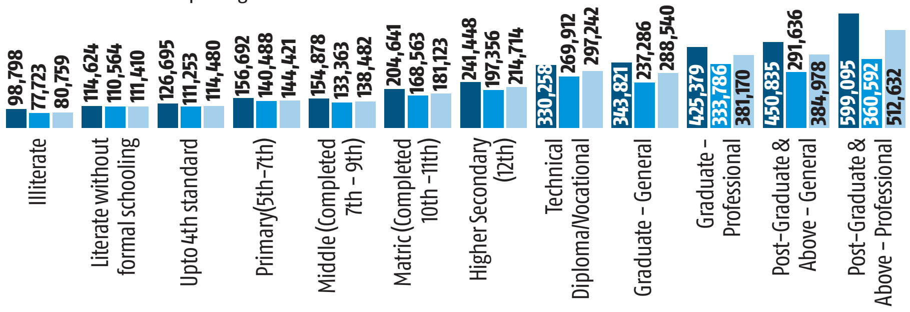
At aggregate levels, urban households earn, spend and save significantly more than their rural counterparts

Income, consumption expenditure and surplus by location



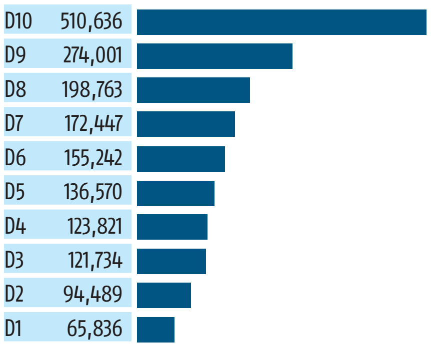
Unlike urban areas, people with vocational training earn more than graduates in rural India - implying a necessity for extension of entrepreneurial training for rural youth and support for sustainable self-employment

Household income as per highest education attainment within household

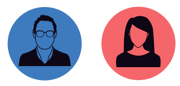


Income per household at the top decile is 7.8 times of those in the bottom-most decile

Household income distribution by per capita income decile



Gender parity (Image)



	Male	Female
Amount aged 16-59 (millions)	425.6	393.8
Number of earners (millions)	325.7	69.1
Proportion of earners (%)	76	18
Annual income	132,000	43,700

Primary sector engagement and casual wage labour are the principal occupations for 54% of Indian households but 61% of national income come from all other occupations combined.

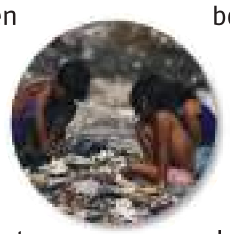
Share of household vs share of income by occupation

India's poor – many shades of grey

In 2014, the National Crime Records Bureau of India reported 5,650 farmer suicides. This is a scathing commentary on the politics of debt which still finds an echo among the nearly 92 million households who belong to the poorest 40% segment in the country. An overwhelming majority of these households (56%) are to be found in the dark underbelly of Rural India and eighty per cent of such households are to be found in the Underdeveloped Rural district clusters in the erstwhile BIMARU states. Understanding and isolating this particularly vulnerable segment of the rural poor is crucial for better targeting of welfare programmes.

IN NEARLY 70% OF such households, there is no single member with even 10 years of formal education, thus making them severely handicapped when it comes to formal sector employment. A majority earn their incomes from small and marginal cultivation, non-agricultural labour and agricultural labour. The annual per capita income of the bottom 40 per cent quintile of the population during 2013-14 was ₹ 18,666 compared to a corresponding figure of ₹ 96,794 for the top 20 per cent quintile.

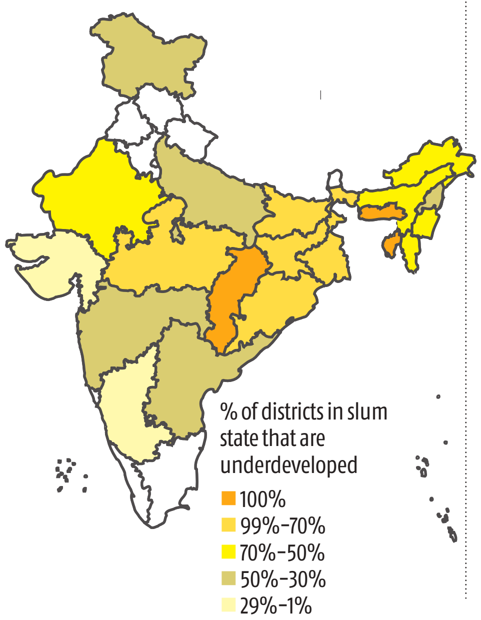
These are the households that are typically eligible for government doles and subsidies. But given the leaks and loopholes in the system, only a small percentage of the target group is able to avail of these much-needed benefits. As little as 55 per cent of such households hold Below Poverty Line (BPL) and Antyodaya cards, while 32 per cent can only afford to live in non-permanent structures, where personal toilets or potable drinking water within premises are not available. About half of such households own MNREGA job cards and around 80 per cent have ever used them. Similarly, only 16 per cent of such households own a Kisan Credit Card.Significantly, over 40% of beneficiaries report dissatisfaction with the experience.



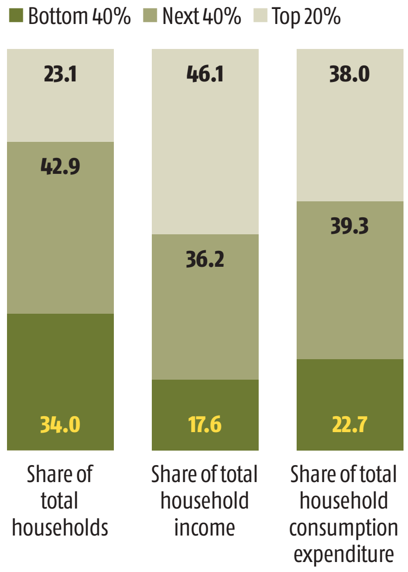
A large proportion of the earnings of these households – as much as 57% – is spent on food while just 5% of their total expenditure is on education. Such households borrow about ₹ 6,000 to meet their routine and non-routine expenses annually. With most of this credit coming from informal sources of borrowing, the desperately poor fall prey to moneylenders and other loan sharks. They are forced to work off their loan at outrageous debt servicing terms that not only put their meagre properties at risk but also rob them of their dignity. People at the bottom of the income pyramid are leveraged far more badly than those who relatively affluent, and are likely to remain in poverty and unable to clear their debt. Nearly 72% of households belonging to the bottom quintile feel they do not earn enough to meet their monthly consumption needs, or meet it with difficulty. 65% of them are also not confident about the stability of their major income source.

There is therefore an urgent need for policy making that takes into account the diverse needs of this truly vulnerable segment of rural poor and design delivery mechanisms that ensure well-targeted welfare benefits rather than enabling only those households that control the three factors of production, viz. land, labour, and capital. Clearly the "Sabka Saath, Sabka Vikas" slogan would have different implications for different population segments and it is imperative that we recognise the true Underdeveloped Rural and give it the due attention it deserves.

41 million 'really poor households live in the underdeveloped rural district clusters, a significant proportion of which are located in the erstwhile BIMARU states

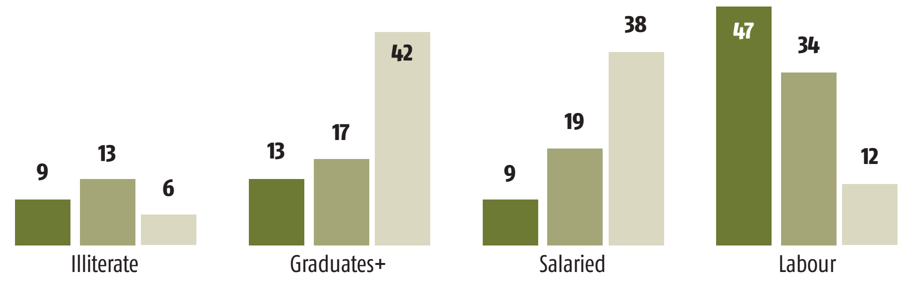


The bottom 40% is a low potential market segment with limited penetration of white goods and durables



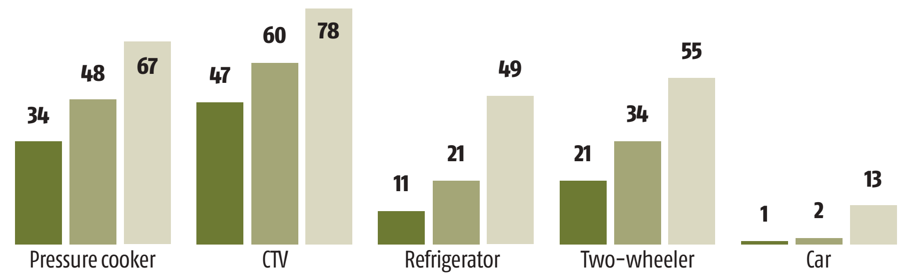
The bottom 40% based on PCI is characterized by low education, limited participation in formal employment, and wage based earnings

Percentage share in total households on education and labour indicators



A third of India's total households belong to the bottom 40% income earning units contributing less than a fifth to total household income and just over a fifth to household consumption

% of households own products (Oct. 2014)

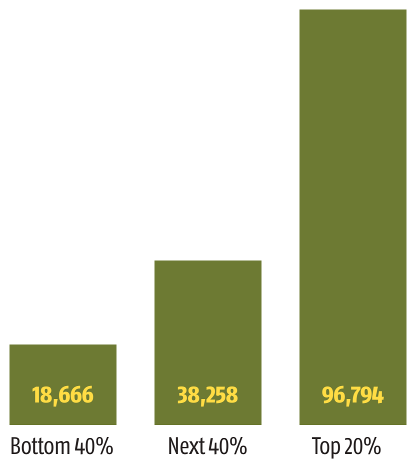


The bottom 40 percentile are leveraged badly due to outstanding debt and are likely to remain indebted given their current earning capacity

	Proportion of		
	Saving to income	Debt to income	Saving to debt
Bottom 40%	(5.8)	9.2	(63.3)
Next 40%	10.8	7.8	139.4
Top 20%	32.2	8.3	386.4

The per capita income of the bottom 40% is less than 5 times that of the top 20%

Per Capita Income (₹/annum, 2013-14)



Occupation influences life satisfaction

Income and employment-related matters are perhaps among the most obvious factors that contribute towards household well being and life satisfaction. However, it would be wrong to say that high income alone equals high life satisfaction. An increased monthly earning of ₹1,000 would have a different impact on life circumstances of a CEO and a casual labourer. Occupations can provide key insights into where in the life satisfaction continuum a household is situated and provide policy makers with pointers in terms of developing relevant policies targeted at increasing well being of different occupation groups.

THE RESULTS OF ICE 360° SURVEY of 2014 by PRICE provides detailed occupational breakdown of the Indian workforce. Taking a closer look at some of these occupation categories provides interesting insights into the differences that exist within this group on two drivers of well being: income and savings. For instance, under self-employed we have 10 million households of petty traders, 30 million businessmen family units, nearly 11 million households who earn their living by way of non-professional self-employment and another group of 4 million family units whose chief wage earners are self-employed professionals.

The annual household income level for these sub-groups ranges between ₹160,000 (for petty traders) to ₹ 488,000 (for professional self-employed). Significantly the savings rate for petty traders is about 21% whereas it rises to32% for shop-owners/businessmen and increases to 42% for the professional self-employed. If surplus income of the Indian household is indexed at ₹ 100, the shop-owners and businessmen figure stands at 150 and for the professional group at 416. On the flip side, surplus income for petty trader (52), labourer (30) and farmer (71) households is much lower than that for the average Indian household.

Similarly, among salaried households there are 34 million that are headed by Grade 4 employees whose average annual income stands at ₹ 224,000. Compared with petty traders, their savings rate is higher at 29%. However, in contrast with the next level of salaried employees (clerical staff) their household income and savings rate are significantly lower. In fact, the surplus income of the clerical staff group (when indexed at ₹ 100 for all-India) stands at ₹ 255 as against ₹ 106 for Grade 4 employees.

It is therefore evident that while self-employment(other than petty trading)delivers some fundamental form of well being, employment in the organised sector provides more opportunity to turn increased income into wealth and higher savings, even at the lowest level. It is thus not surprising that 73% of those employed at mid- and senior-level executive positions and 72% professional self-employed are among the top 20% income households whereas only 37% of shopkeepers/businessmen are to be found here.

But does gross income alone translate into life satisfaction values? Probably not, since only 31% self-employed professionals were satisfied with their current occupation, as also only 23% households across supervisory, junior and senior-level categories under salaried employment. The reasons offered for their dissatisfaction included insufficient and/or irregular earnings, lack of social security, high stress work conditions and mismatch between occupation and qualifications.

Policies can be geared towards addressing some of these issues. For example, retirement schemes that are available to the employed in government and corporate sector jobs contribute significantly towards life satisfaction. Allaying anxiety about irregular earnings and providing a cushion for difficult times when employment is not assured is a gap that needs to be bridged. Devising better saving tools such as age old retirement schemes for the self-employed would also help.The biggest need however is for upgrading skill sets of the 11 million self-employed non-professionals that are confined to low-income jobs.With the current government's stress on promoting and financially supporting entrepreneurship, perhaps it is time to give due importance to market-linked vocational education so that the youth can strive for economic independence rather than chase after elusive 'permanency' in the salaried job market.

Salaried employees of all levels and self-employed workers other than petty traders are the only occupational groups that boast of above national average incomes and surplus incomes

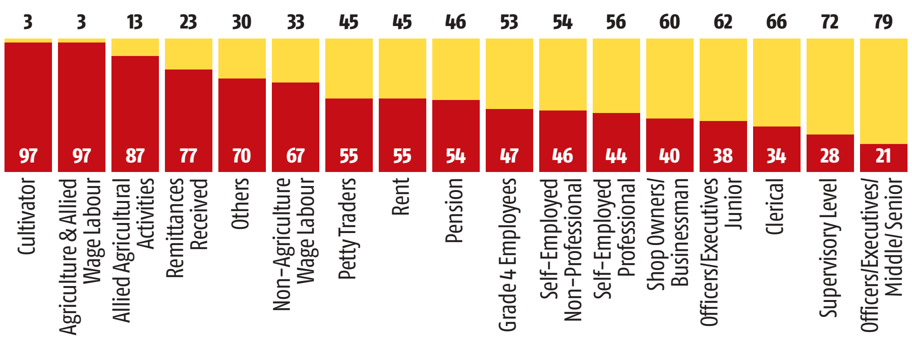
Income and surplus income mapping by major household occupations

Occupation categories	Household major occupation	Income Index (All India = 100)	Surplus income index (All India =100)
Farming	Cultivator	88	71
	Allied Agricultural Activities	92	45
Self-employed	Petty Traders	81	52
	Shop Owners/Businessman	135	150
	Self-Employed Non-Professional	107	73
	Self-Employed Professional	247	416
Salaried	Grade 4 Employees	113	106
	Clerical	170	255
	Supervisory Level	220	371
	Officers/Executive Junior	227	388
	Officers/Executives/Middle/Senior	268	440
Labour	Agriculture & Allied Wage Labour	50	25
	Non-Agriculture Wage Labour	66	41
Others	Remittances Received	61	63
	Rent	99	62
	Pension	109	164
	Others	67	51
All India		**100**	**100**

Note: Estimated annual average household income and surplus income at all India for the year 2013-14 were Rs. 197686 and Rs. 35101, respectively.

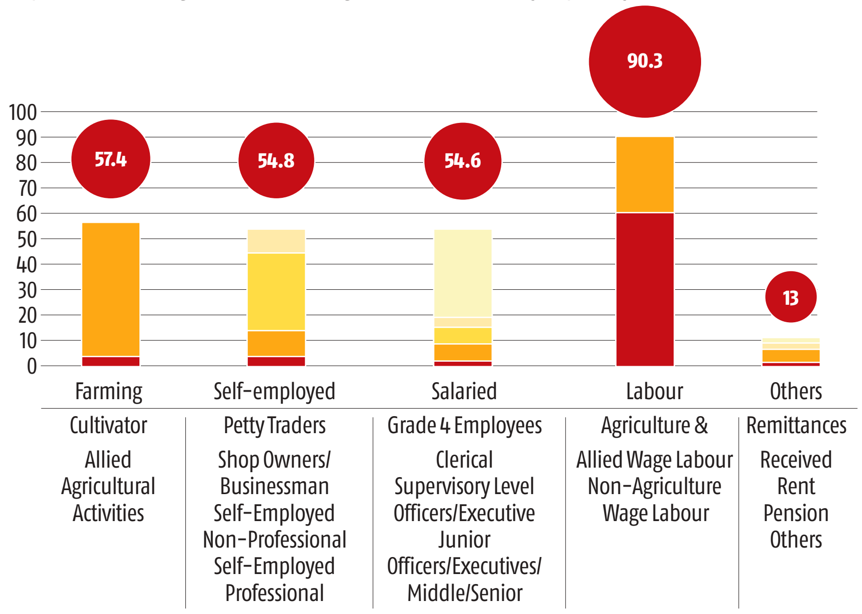
Organised sector opportunities are far more likely to be available in urban rather than in rural areas and hence salaried employment is higher in urban than in rural India

Primary employment of households: Rural vs Urban (%)



Even though primary sector engagement is the major income source for only 57 million of India's households, salaried employment is nearly equal in size to self-employment which points to a certain lack of entrepreneurial spirit

Proportion of working households having confidence in stability of primary source of income (%)



Middle India deserves its due attention

Most analyses of the Indian consumer economy tend to focus on the middle-class on the presumption that this consumer segment comprises the biggest chunk of the Indian consumer population, but in essence, "Indian Middle Class and the Rich" constitute just the top 20 per cent of the Indian population. The ICE 360° Survey 2014 by PRICE has sought to provide deeper insights into the large base of consumers (60% of population)that is wedged between those at the bottom of the income ladder (the 20% who make up the welfare-driven economy) and the top 20% beneficiaries of a liberalising market-driven economy. This large, and hitherto unattended, segment deserves a closer look from policy makers as well as marketers.

THERE ARE 270.1 MILLION households in the country of which 163.7 million households belong to Middle India. Out of these 163.7 million, 48.6 million are urban residents while 115.1 million live in rural areas. In over one-fifth of all households in this segment the highest education level is below primary, while only 16% have a graduate (and above) member.

Nearly 37% of total households in Middle India depend on 'casual wage labour' as their primary source of income while the share of regular salary/wages accounts for just over 16%. Only 24% of Middle India are farmers or engaged in allied activities associated with the sector.The majority of earners from Middle India households work in precarious employment conditions and few have written job contracts or access to perks and social security.At the all-India level, around three-fourths of the households whose chief wage earners are either regular salaried/wage earners or casual labourers, reported they do not have any written job contract; only 37% are eligible for paid leave;about one-third get at least a weekly day off and 44% get regular monthly salaries. The corresponding figures for Middle India: 81% do not have a written employment contract; only one-third are eligible for paid leave; 27% get at least a weekly day off; and 38% get monthly salaries.

The average household in Middle India earns ₹154,129 annually and spends ₹141,417 leaving them with a surplus income of Rs. 12,711 per annum. In comparison, the average household in Rich India earns 2.6 times more annually and spends 1.9 times more than Middle India.

The goal of universal access to basic amenities like safe drinking water, toilet facilities, and usage of LPG is still to be achieved and access is particularly poor for Middle India and worse still for Poor India. This is reflective of the fact that nearly 65% of households from Middle India have expressed their willingness to pay for more water.

In terms of financial inclusion, the survey found that apart from bank account ownership (87%), access to all other services like life insurance (30%) and formal credit (14%) is still low in India. These figures are lower than the all-India averages.

Given the sheer size and status of Middle India, it is therefore pertinent to ask the question: Is Middle India socially, politically and financially included? This apparent neglect has had adverse effects on this large segment of Indian population with little over one-third (34%) of Middle India households finding it difficult to meet their basic needs and nearly 45% not confident about the stability of their income source. It is thus imperative that Middle India be given more attention from policy makers as not addressing their issues could be a precursor to civil unrest.

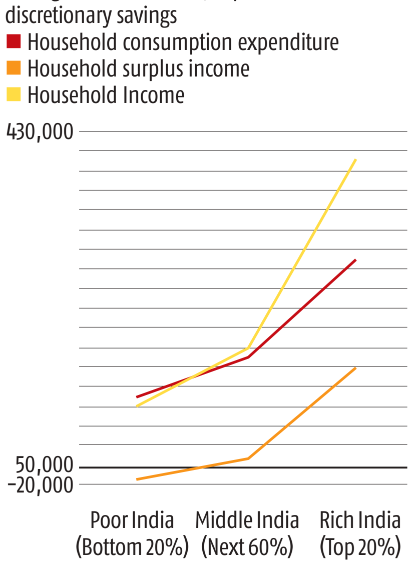
A large segment of Middle India was just as optimistic about the future as were most Indians but at the same time, their obvious financial vulnerability is a reality that will need to be addressed with earnest if their expectations are to be realised

Expectations of people regarding financial stability and improvement in quality of life

Expectations	Poor India (Bottom 20%)	Middle India (Next 60%)	Rich India (Top 20%)
Proportion who feel that 'good days' are going to come under this government	75.8	72.1	79.4
Proportion who think their economic situation will change for the better over the next 3 years	29.1	31.7	43.1
Proportion who are confident about the stability of their major source of income	34.6	44.5	68.6
Proportion who do not find it difficult to meet their household's monthly basic needs	26.4	28.3	55.6

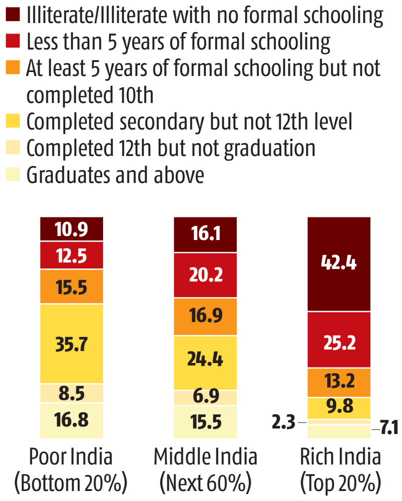
The average household income and expenditure of 163.7 million households of Middle India are comparable to Poor India and in complete contrast to the top 20% 'Rich India'

Average annual income, expenditure and discretionary savings



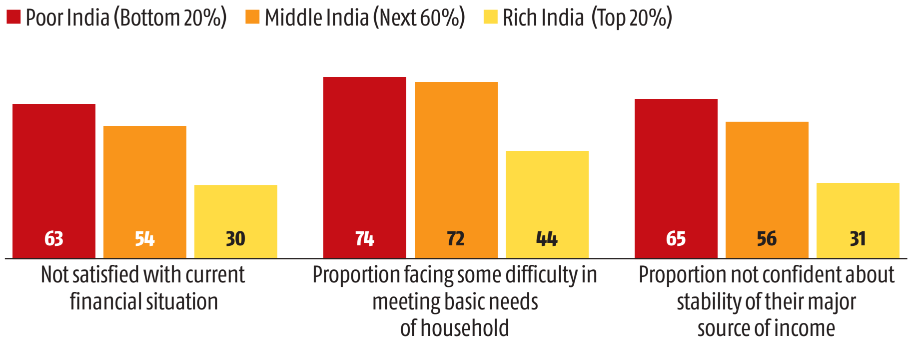
Nearly half of Middle India's households do not have even a single member who has completed 10 years of formal education, which is a great disadvantage in a country where education, income, and well-being are highly correlated

Profiling Indian households by highest education completed



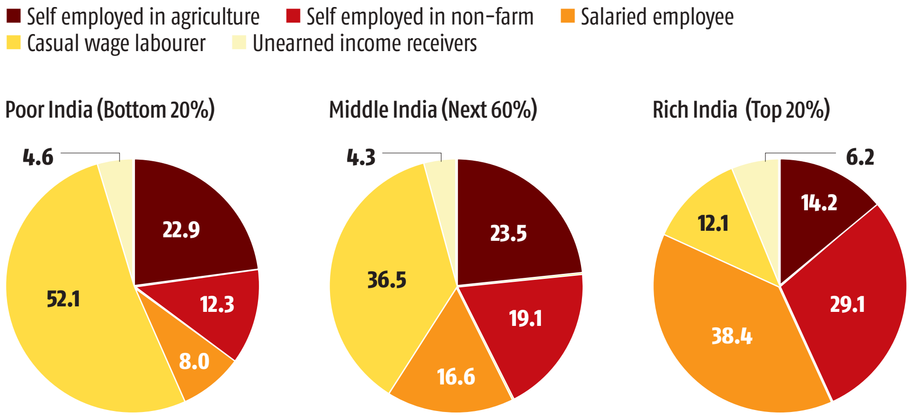
Well over half of Middle India who are wedged between India's welfare and market-driven economy consider themselves to be financially vulnerable and have negligible social security cover

Financial concerns of the Indian households (by income group) (%)



Middle India carries the burden of having the largest share of casual wage labourer households (nearly 60 million), but it also has the largest share of households with at least one salaried employee (27 million)

Occupational mix of Indian households (by income group) (%)



The changing face of rural India

For long policy makers and marketers alike treated rural India as one large homogenous entity – where the poor lived on subsidies and practiced agriculture. The ICE 360° Survey (2014) reveals that nothing can be further from the truth. For one, occupational structures are very different from what is assumed. Second, along with nearly 80% of India's poor, rural also houses nearly half of India's top 20% affluent households. Policy makers need to pay heed to the presence of this complexity and take into account the diverse needs of a changing rural India rather than adopt a one-size-fits-all approach to rural development.

THERE IS A QUIET change sweeping through the Indian countryside for the past decade. Yet, few people realize the implications and consequences of the enormous changes taking place and what these changing realities signify for the well-being of the 800 million people living in India's 600,000 villages.

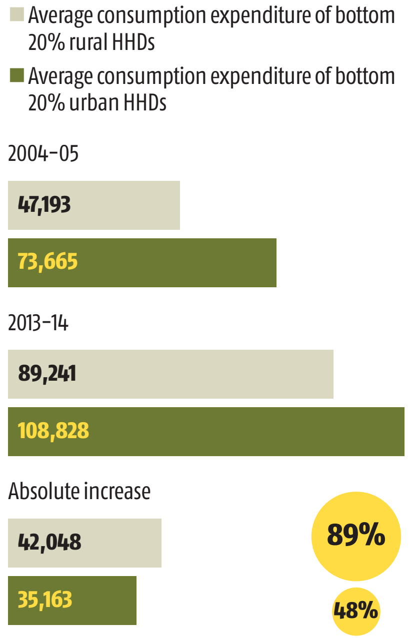
Based on the findings from PRICE's 2014 ICE 360° Survey, rural India contributes over half of India's income (55.4%), has a share of 56.1% of consumption expenditure and its 179.5 million households have a share of 52.3% of the country's surplus income. The fact of the matter is that while most of the bottom of the income pyramid families in India lives in rural India, around half of the upper income households are also located there. The good news is that consumption expenditure of the rural poor (bottom 20%) has increased more than urban poor (2013-14 over 2004). The bad news is that the income disparity between the rich and the poor in rural India has widened.

The popular perception of rural India as one of a large homogenous mass comprising of small and marginal farmers with pockets of rich farming households is far from the truth. Half of all rural households do not have any land holdings at all. The assumption that rural households are largely dependent on farm income is no more valid since only 25.8% of families in rural India depend only on incomes from cultivation of land. An overwhelming majority (42.5%) earn their livelihood from non-farm activities alone while 21.8% are dependent on a combination of farm and non-farm incomes. It is the latter that are doing better than other households on all economic markers.

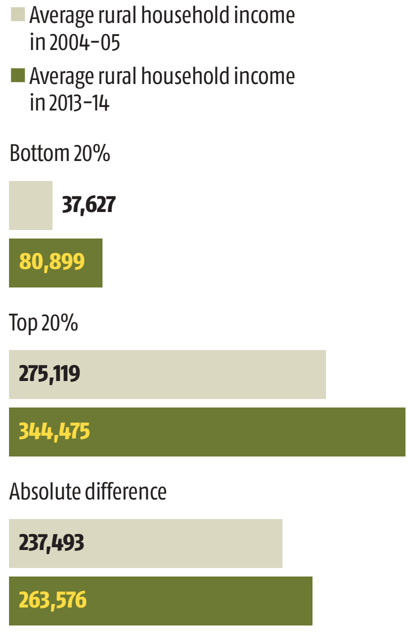
These significant changes in the structure of the rural economy have widespread implications for policy makers. There is no doubt that a huge population is still stuck in the dark underbelly of rural India. However, most central and state government subsidies are being directed towards large agricultural landowners that constitute a tiny percentage of the rural population.

This has led to a situation where the linkages between agriculture and nutrition have been severed. Right through the 1990s and up to the first decade of the new millennium, food production has declined due to subsidies. Irrigation and investments are being directed at cash crops leading to a decline in food production across states. As a result small and marginal farmers have had to rely on agricultural labour opportunities, or bailed out completely from the farm sector, while the ones that remain are trapped in a cycle of debt and low nutrition–as is evident from the high farmer suicide rates.

While the rural poor have increased their consumption more than the urban poor, the chasm between the rural rich and rural poor has widened



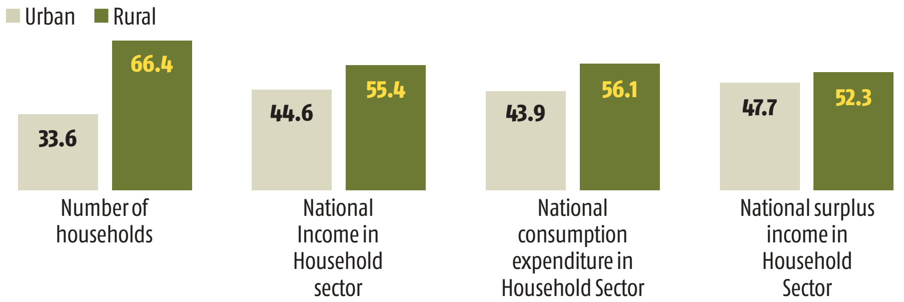
In absolute terms the disparity between the rural rich and rural poor has grown in the last decade



An overwhelming majority of rural households either earn from non-farm activities or are dependent on a combination on both farm and non-farm income

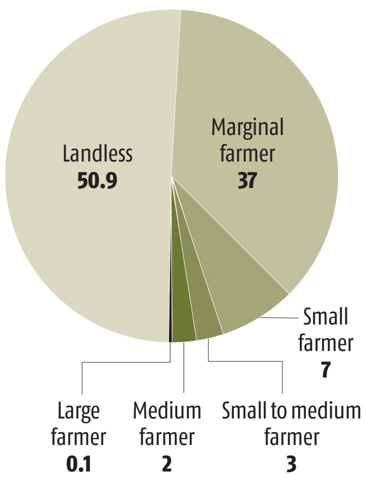
Rural household type based on major source of household income	Rural households (Million, 2014)	Average household income ₹ per annum 2013-14	Share of household (%)	Share of income (%)
Pure farm households	46.2	1,61,705	26	25
Farm with non-farm income	39.2	1,89, 374	22	25
Agricultural labour only	17.8	92,230	10	6
Non-farm including casual labour	76.2	1,70,872	42	44
Total Rural Households	**179.5**	**1,64,750**	**100**	**100**

Rural India contributes to over 50% of our national household income and expenditure



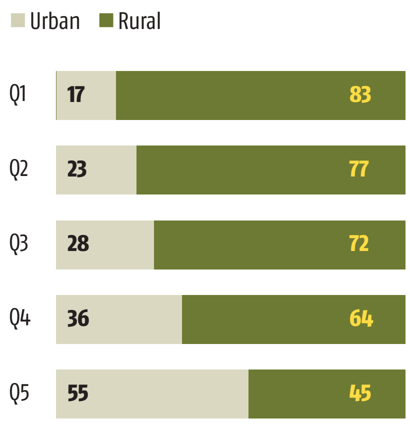
The truth is that half of rural households do not have any land holdings

Share of household (%)



Most of the bottom of the pyramid lies in rural India; but so does half of the 'rich'

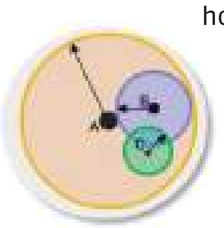
PCI based poulation quintiles



Infrastructure extension is critical to promoting rural-urban continuum

There has always been a preconceived notion that urbanisation is a sign of prosperity. Is this true in the case of modern India? The recent findings of the ICE 360° Survey of 2014 both support and contradict this claim. On the bright side,there are households located in developed rural districts and in close proximity to metros and boom towns. Their share of average household income and expenditure is comparable to those living in the metros. However, there also exists a wide chasm between demand and supply of basic amenities in the countryside. As government initiatives of Smart Cities and AMRUT are launched in earnest, we explore how the gap between rural India and urban centres is being bridged in surprising ways.

WITH RAPID ECONOMIC growth, modern India is fast shifting from a predominantly agrarian-based rural society to an industrialised urban-centric one. The general trend captured by the ICE 360° Survey conservatively estimates that by 2050, 45% of the Indian population would be living in cities, thus constituting an astonishing one-fifth of the spike in world's urban populace. This rise also promises to contribute to 85% of total tax revenues, potentially benefiting 200 million rural Indians living on the fringe of the 70 largest cities. A unidimensional push for urbanisation to cope with high population growth however has taken a massive toll on urban infrastructure. Nearly 32% of the urban families live in one room accommodations and high growth cities like Mumbai having nearly half of its households dwelling in slums.



The building of better transport infrastructure has led to the emergence of Developed Rural clusters like Meerut, Kozhikode and Bhatinda, 41% of which are in close proximity to metro cities. The estimates from the ICE 360° Survey show that these clusters consist of nearly 40 million people and are fast approaching the developmental standards of those of Metros or boom towns, especially in terms of the 21 developmental indicators from Census 2011-including demographic, basic amenities, financial inclusion and consumer durable ownership. For instance, in terms of overall development score (all India=100), Developed Rural households' (with an index score of 119) average annual household surplus income (income minus expenditure) is significantly higher than that of its Niche City counterpart (i.e. predominantly urban conglomerations with populations of 1 to 2.5 million) at ₹54,283. Developed Rural households have also become comparable to Metros in terms of share of income and expenditure: Metros constitute 11.6% of total Indian income whereas Developed Rural is as high as 15%. On the expenditure front, Metros have a share of 9.9% as opposed to 14.7% for Developed Rural households.

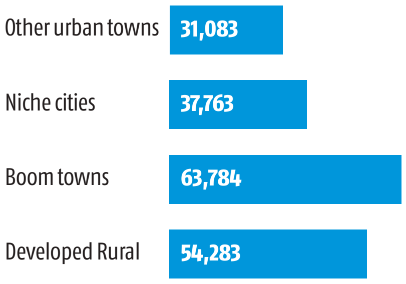
In a ranking of proportion of rich households, Developed Rural is at the same level as Boom Towns and Niche Cities. Additionally, share of poor in Developed Rural is lower than Niche Cities and other urban towns. The story however is not the same for Underdeveloped Rural households that comprise75% of the total 246.6 million households and occupy the bottom three income quintiles. Despite 85% of households located in Underdeveloped districts bordering lower order towns, in terms of access to basic amenities they are far behind their urban counterparts.

Among the Underdeveloped Rural households, 28% have separate kitchens, less than 16% have LPG connections and barely 11% have access to drinking water within their homes. On the other hand, in urban slum households nearly 70% get their water from a tap and half of them have the luxury of running water in their homes; over 90% have electricity connections and most use LPG for cooking.

Taking into account the rapid changes taking place, policymakers will need to take a harder look at targeted infrastructure development in identified "Rurban" centres. This would help in reducing the demand -supply gap as well as ease the pressure on civic infrastructure in big cities due to rampant migration from an under served countryside.

Savings potential lies more among households residing in developed rural districts as against many medium and smaller cities where cost of living consumes a great share of the earnings

Annual Household Surplus Income by Economic Cluster (2013-14)



Contrary to popular belief, the Operating Expense Ratio of Rural and Urban India is quite similar - and it's more favourable in developed rural over niche cities and smaller towns

Operating Expense Ratio: Rural vs Urban clusters

Economic development clusters	OER (Consumption expenditure over gross income) in %
Metros	70.5
Boom Towns	78.4
Niche Cities	86.0
Other Urban Towns	86.4
Developed Rural	80.2
Emerging Rural	84.0
Under-Developed Rural	84.6

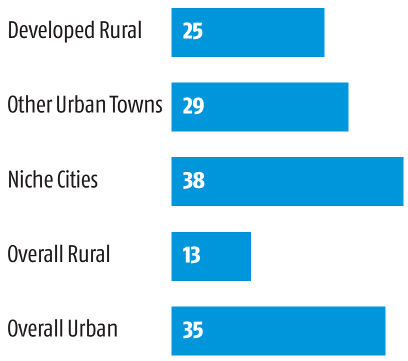
Despite boasting of higher household income levels than those in many small towns and niche cities, quality of life in developed rural clusters remain poor due to lack of infrastructure development and access to civic amenities

Development score by Economic Cluster (Census 2011)

Economic development clusters	Development score based on 21 development indicators (All India = 100) from Census 2011
Metros	220
Boom Towns	193
Niche cities	182
Other Urban Towns	168
Developed Rural	119
Emerging Rural	71
Under-developed Rural	36

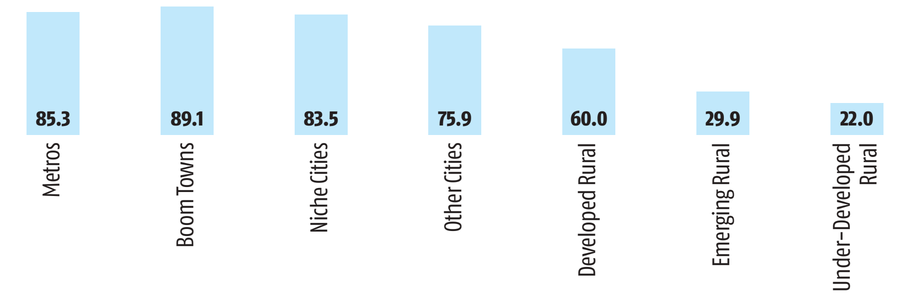
The number of salaried households in Developed Rural is twice the rural average and is almost on par with small towns - indicating a trickle-down effect which is transforming occupation profiles to resemble a more urban configuration

Households with primary source of income as Salary/Wages (%)



Having a toilet in every home is still a distant dream even among developed rural households even though they can certainly afford them

Proportion of households having latrine facility within premises (%)



Large villages to change the face of rural development

With the launch of the Sansad Adarsh Gram Yojana, large rural agglomerations have caught the eye of policymakers. Instead of a push for mass urbanisation, this Gandhian programme aims at transforming the development model of sizeable villages by taking an integrated approach. Coupling infrastructure development with ethical tutoring on values of gender equality, nationalism, etc. self-sustainability and eco-harmony is the ultimate goal.The initiative is laudable and much awaited for, as observed by Myrdal (1975), once regional inequalities have emerged because of some initial advantage the region may have had, the play of market forces tends to exacerbate these inequalities. How tangible are the outcomes of such endeavours? ICE 360° Survey sheds some light on interesting developments taking place in the rural sphere.

MAHATMA GANDHI famously said "India lives in its villages." Today, two thirds of the Indian populace is sprinkled across the countryside.Nearly 57% of rural India lives in small villages with populations of less than a thousand and only 0.8% is classified as large villages with population exceeding 10,000. While the growth story has been a happy one for rural India, it has been heavily in favour of large villages.Data reveals that35%-40% of large village households engage with organised market entities like wholesale traders as opposed to only 15% in small villages(<1000). A quarter of small villages (<1000) are still vulnerable to distress pricing by local mandis, a phenomenon practically negligible in larger villages. This is largely due to the fact that 70% of large villages have access to a "pucca" road within a kilometre radius as compared to only one-third of small villages (1000-5000). In the past decade, the rapid growth in accessibility and infrastructure has enabled larger villages to become hubs for business and trade. This increased shift towards non-farm activities from agrarian engagement has contributed to income growth as well.

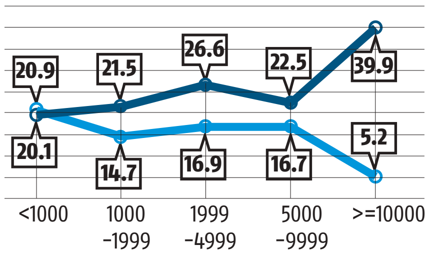
ICE 360° Survey findings reveal that on an average large village households have surplus income of ₹62,425 which is at par with Boom Towns and higher than that of Developed Rural areas.For any effective development policy, access to basic amenities is imperative. Compared to the rural average of 46%,over 65% of households in large villages have access to a toilet facility, at par with Niche Cities.More than half the large village households have a separate kitchen within their premises and nearly 45% of households use LPG, figures that are significantly above the rural average. In terms of educational and medical infrastructure, over 60% of large villages are within a kilometre of a government secondary school and a primary health care centre and 40% boast of a medical shop. This is in sharp contrast to the 20% of small villages with a secondary school in the vicinity, only 6% of which have a primary health care centre and a shocking 1% have a medical shop. This disproportionate access to basic education and medical care is the major reason for high instances of abject poverty in rural India's dark underbelly.

While rural welfare schemes like MGNREGA have proven to be effective in the short term in empowering the marginalised factions, there is an urgent need to rethink long term rural development. Gone are the days when just improving the welfare of farming families was synonymous with the overall well-being of the rural community. With large villages serving as centres for rural upliftment, a multi-sectoral approach would prove far more effective in building a bridge to the remote parts of the countryside.

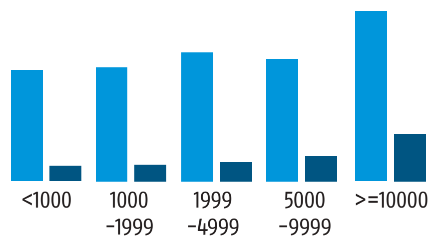
There should be a strong emphasis on geographically concentrated programmes with the right mix of agricultural improvement for marginalised farmers, skill development of rural youth and industrial development to provide non-farm job opportunities for rural residents.

Villages of population exceeding 10,000 account for 40% of the 'Rural Rich' and only 5% of the 'Rural Poor' as compared to an even representation of the two segments across other smaller village classes

Share of households by income across different village classes



Income distribution across different village classes



Access to basic amenities like toilets, LPG connections and separate kitchens highlight the acute disparity between large villages which are more 'urbanised', and their smaller counterparts languishing in the periphery

Share of households having access to basic amenities (%)

	Size of Village (Population)					
	<1000	1000-1999	1999-4999	5000-9999	>=10000	Total
Toilet	32.6	43.7	50.2	48.3	65.5	46.6
LPG	24.2	29.7	39.7	37.4	44.6	34.6
Separate Kitchen	30.5	41.6	46.2	41.1	52.6	42.3

Higher order education and medical facilities remain beyond reasonable access to most small villages and neither can they be made ubiquitously available through relaxation of norms. The only viable solution is to create growth centres within rural with high levels of connectivity to promote mobility and trade

Health & education (Share of villages easily access to facilities - within village or within 1 Km) (%)

	Size of Village (Population)				
	<1000	1000-1999	1999-4999	5000-9999	>=10000
Govt. secondary school	25	53	50	55	63
Govt. vocational or technical institute	4	23	21	35	17
Primary Health Centre	6	11	13	29	61
Medical Shop	1	3	12	39	45

Small villages still remain significantly vulnerable to distress pricing at local retail as against wholesale and regulated trading which are accessible to larger villages; and this disadvantage extends to outreach of PDS as well

Distribution of villages by major point of sale of agriculture produce used by majority of farmers (%)

	Size of Village (Population)					
	<1000	1000-1999	1999-4999	5000-9999	>=10000	Total
%Distribution of villages	56.7	23.3	16.1	3.1	0.8	100.0
Retailer	45.6	34.3	24.0	19.9	32.8	38.7
Wholesale trader	15.2	34.7	29.5	40.0	35.5	22.9
Village mandi	22.6	13.5	19.4	22.7	7.8	19.9
Government mandi	6.7	10.2	17.1	2.7	12.0	9.1
Others	9.8	7.3	10.0	14.8	11.9	9.4
Total	100	100	100	100	100	100
PDS/fair price shop	29	54	73	70	89	44.0

Data debunks the myth that low castes equal poverty

Caste continues to be the staple agenda of politics of this nation, irrespective of the party in power. In the backdrop of two decades of affirmative action programmes and economic liberalisation, is there reason to believe that well-being markers are more pronounced among upper-caste communities as opposed to the lower rungs? With successive governments showing great reluctance to even deliberate on the issue let alone take any corrective action, the world's largest democracy remains hostage to caste-based politics. This single-minded focus has undermined the real issue: to address poverty of large segments of the population, irrespective of their caste profiles.

RECENT FINDINGS MAKE a compelling case against the caste-based reservation system in place. The ICE 360° Survey of 2014 reveals that in the last decade, the SC/ST communities have experienced proportionately higher income growth as compared to other social groups. The data shows that while SCs and STs together account for 29% share in population (2013-14), their share of the total growth of household income between 2004-05 and 2013-14 had been 34%as against upper castes who account for 31% share of the population but absorbed only 28% share of the growth in income.

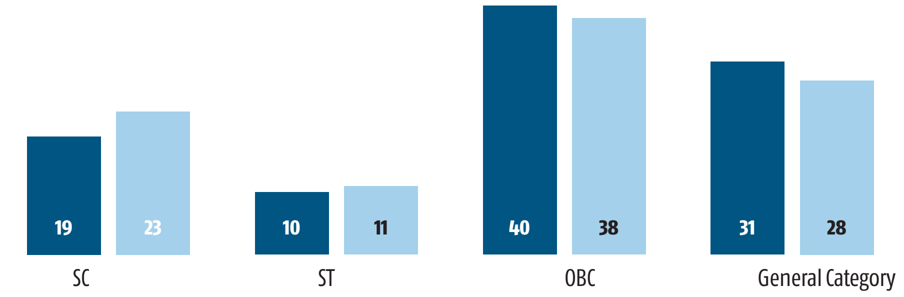
Mapping the labour mobility over the past decade (2004- 2014) also provides supportive evidence. Firstly, among regular salary/wage households, share of upper castes has remained unchanged as opposed to a 4.3 percentage point increase for Scheduled Castes, a 5.9 percentage point rise for Scheduled Tribes and 1.9 percentage point rise for Other Backward Classes. Secondly, there has been a significant drop in SC/ST involvement in casual wage labour which is considered to be a low-income occupation group. In contrast, upper caste households have seen almost a 4.5 percentage point rise in engagement as casual wage labour. The data shows that casual wage labour and agricultural labour continue to be the two predominant occupations, regardless of caste.

In the context of income disparity ST communities appear the most marginalised; the difference between the remaining communities across all professions is not very stark. Data shows that against an all-India Index of 100, the average household income breakup is: 112 for SCs, 115 for STs, 115 for OBCs and 112 for GC amongst grade 4 employees and 233 for SCs, 254 for OBCs, 299 for General Category and 143 for STs amongst mid-to-senior level executives.As far as education levels are concerned, the numbers mirror the income trend. Nearly 29% of GC households have at least one graduate. The same is true for 20% of OBC households, 11% of ST households and 17% of SC households. However, one trend stands out. On an average, a GC household earns 1.4 times that of a SC household, 1.53 times a ST household and 1.3 times an OBC household. However, the more dramatic differences lie within caste categories themselves. For instance, a SC household with one graduate earns 4.2 times that of another SC household with no literate member. Similarly, a SC household living in a Metro will earn at an average 2.3 times that of a SC household in an Underdeveloped Rural district. The same ratio goes up to 2.5 when comparing a GC household in a Metro to a GC household in Underdeveloped Rural.

Overall, it is quite apparent that it should no longer be assumed that low castes are synonymous with poverty.

Non-upper caste households absorbed 72% of the aggregate household income growth between 2004-05 and 2013-14 while representing less than 70% of total households

Share of aggregate growth in household income across caste (2004-05 to 2013-14)



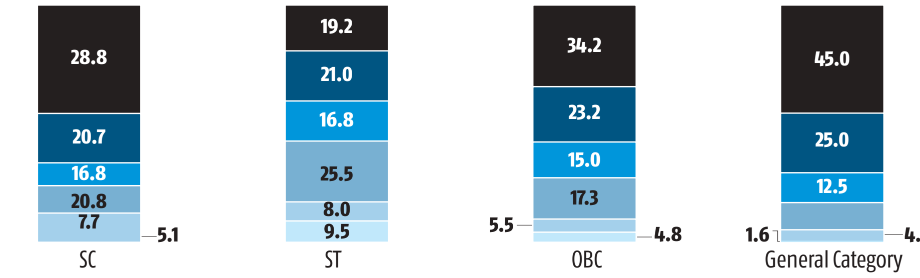
The intra-caste deviation in income is 1.4 times between a GC and a SC family but between a household in metro and an underdeveloped district, the difference can be over 2 times, irrespective of the caste factor

Average household income of clusters within caste groups

All India average household income (₹197,686) = 100	SC	ST	OBC	General Category
Metros	142	142	160	177
Boom Towns	114	98	167	163
Niche cities	107	113	130	160
Other Urban Towns	90	102	102	138
Developed Rural	113	91	158	136
Emerging Rural	69	95	87	97
Under-Developed Rural	62	62	62	78
Total	84	79	97	122

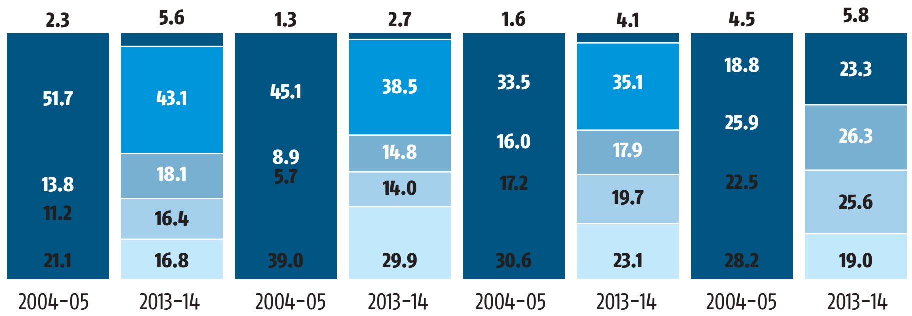
Education is a significant differentiator between castes when considering highest levels of education attainment but the difference somewhat evens out at the matriculation level

Distribution of households by highest education level of any member (%)



The occupational shift from farm to non-farm and from wage labour to more formal employment including self-employment is most pronounced among SC and ST households while the situation among general castes has worsened with the major shift happening from farm to casual wage labour

Household distribution of primary source of income (%)

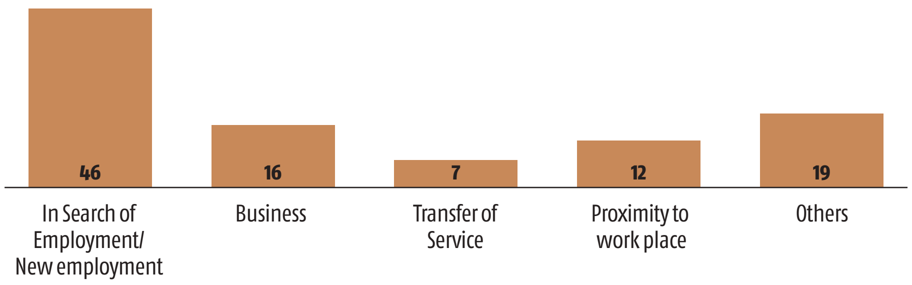


This challenges the notion of having a pure caste based reservation system which is a political 'hot potato' and begs to ask the question - shouldn't indicators of backwardness be driven purely by income and employment status and reservation determined accordingly as against blindly following a system which is clearly flawed?

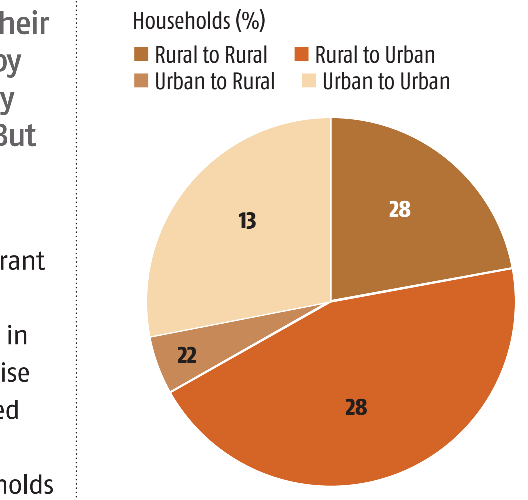
High Labour Mobility is symptomatic of inequality

While it may be true that Indians are the most mobile people in the world, the reason for this large 'floating population' is the search for adequate employment opportunities. Year after year, as agriculture becomes less and less tenable as a sustainable income source, a significant proportion of the rural workforce migrates to cities in search of jobs.The same holds true for small-town youths who prefer to leave the familiar environment of their homes to seek their fortune in the big cities. The ICE 360° Survey of 2014 undertaken by PRICE finds that nearly 27 million households have migrated away from their native homes and reside at a different location now. But has this increased movement benefitted all stakeholders?

While a third of the migration happens due to reasons of employment or business, nearly half is probably due to distress migration by the unemployed actively seeking work



Contrary to popular perception, migration other than from rural to urban areas actually account for the greater bulk of displacement in India



Permanent migrants rarely come into the agriculture sector, preferring more stable work as salaried earners or self-employed entrepreneurs. Occupational shift from agriculture as well as casual labour due to migration is to the tune of over 30%

Link between occupation and migration

Sources	Migrated households	Rest households
Self Employed in Agriculture	5%	23%
Self Employed in Non-Agriculture	26%	20%
Regular Salary/Wages	42%	18%
Casual Wage Labour	22%	35%
Others	5%	5%

Urban agglomerations have always been the destination point for migrants but permanent migration with family is more evenly spread across all town classes and not overtly skewed to the Metros where high cost of living negates other advantages

Distribution of permanently migrated families across economic cluster (%)

Metros	21.7
Boom Towns	23.1
Niche Cities	26.2
Other Urban Towns	18.7
All urban	**21.0**
Developed Rural	9.5
Emerging Rural	2.8
Under-Developed Rural	3.1
All rural	**4.1**

Whether sending or receiving money, remittance flows seem to be primarily an urban phenomenon with 5.2 million migrant urban households having remitted money to family members back home in 2013-14 as against just over a million rural migrant households

Distribution of household providing remittances by location (In million)

Urban households remitting money	5.24
Rural households remitting money	1.09

THE ICE 360° SURVEY of 2014 reveals that 27 million households in India across the 21 major states have migrated from their native place of birth and are residing elsewhere. Labour mobility is endemic to the Indian experience. Due to the widespread connectivity of the Indian railway network, millions of bread winners migrate long distances to earn their living. Survey reports confirm the widespread belief that most of the mobile labour force consists of rural workers migrating to urban areas in search of work.The states that have witnessed this influx of migration are Punjab, Haryana, Karnataka and Gujarat. An astonishing 45% of the total migrant households have shifted from rural to urban areas.

There has also been inter-regional migration with rural to rural accounting for 22% and urban to urban accounting for 28% of total migration. But has this mobility necessarily had a positive impact? Data reports show that nearly 40% of migrant households are in the top quintile in terms of earnings as opposed to only 9% in the bottom quintile. The median annual income of migrant households is ₹198,000 as compared to ₹146,000 for non-migrant households. Migration has influenced saving behaviour as well with 45% of migrant households reporting an increase in their savings. The search for better employment opportunities has also yielded returns with 68% of migrant households engaged in salaried employment and self-employed in non-agricultural activities. This rise in standard of living has increased the average education level of households with migrant households reporting that 29% have at least one graduate and 24% have at least one member who passed higher secondary.

However, this spurt in domestic brain drain has led to inequitable growth and larger issues. The massive migration to urban centres has put a severe load on the infrastructure and the existing labour market. Additionally, this movement of wage earners has madethe household members who they have left behind vulnerable and largely dependent on remittances. It has been observed that of the 57% that left their native households, nearly 44% have not had any financial transactions with their family members back at their place of origin. This potentially leads to an adverse spillover effect on the performance of the household on multiple development indicators. Without the presence of educated role models, the level of education of the household is severely affected due to lack of encouragement. The lack of drivers of economic growth creates a downward spiral leading to dead-end jobs that limit opportunities for skill development and adversely affects overall work productivity, especially in rural areas.

This internal mobility has given rise to disproportionate economic growth across the geography. While Metros and Boom Towns with their superior infrastructure and high wage jobs have benefitted from the influx of skilled workers, the smaller towns and villages in both rural and urban spheres have been unable to provide incentives to attract the same.

This limits their economies and makes themheavily dependent on informal employment and agrarian activities which have a significantly lower income yield. The Smart Cities initiative launched by the current government seeks to focus on a more equitable distribution of resources. This will prove to be an uphill challenge due to the heavy investment required in developing infrastructure in smaller towns to bring them to a more even playing field.

High Healthcare spend causing solvency issues for Indian households

India compares poorly to other developing countries on parameters such as hospital bed density, ratio of physicians to population, number of doctors graduating every year and per capita public expenditure on healthcare. Given that over 90% of health services are being delivered through the private sector, we have one of the highest private expenditure on health in the world. The key issue is: when a large majority of uninsured or under-insured population is feeling overwhelmed by the cost of health care, should it be left to the market forces to promote healthy living and provide medical services that can be attained in a timely and cost-effective manner? Or do policy makers need to look at healthcare as a key element of the economic well-being of the country?

THERE HAS BEEN A rise in number of world class hospitals and highly qualified medical personnel in India, making India a preferred destination for medical tourism. However, for millions of Indians healthcare services continue to be out of reach in terms of both access and affordability. Consider this – private healthcare expenditure amounts to around 4 per cent of the GDP, making it one of the highest ranking countries in terms of private expenditure on health. Out of this, health insurance accounts for 5-10% of expenditure, employers account for around 9% while personal expenditure amounts to an astounding 82%.

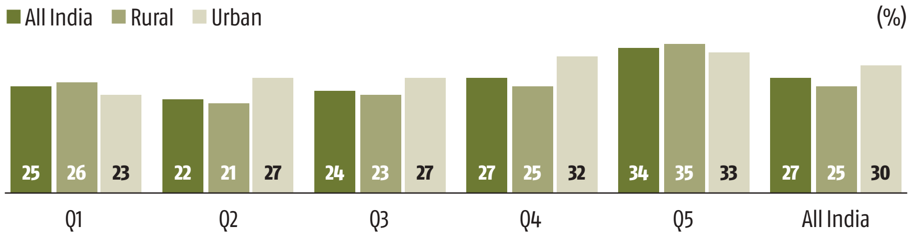
Findings from PRICE's ICE 360° Survey of 2014 show that the average annual total medical expenditure is about ₹9,373 per household. The reported annual expenditure on health related expenses ranged from a minimum of few hundred rupees to a maximum of ₹10 lakhs-plus. Healthcare expenses, in fact, are on the higher side for emerging rural areas and smaller urban towns, often forcing residents to travel long distances for accessing medical services. Now the question arises, how do families cope with rising healthcare costs and medical emergencies? With barely 10-15% of the population having some form of insurance coverage, nearly 80% of health related expenditure is met along with other recurring household expenses.

It's no surprise then that for nearly 60% households, the primary reason for saving is to enable them to deal with medical emergencies. Between 8-9% of households across all households in urban and rural areas reported they had taken loans to meet their medical expenses.

In case of any medical emergency, the implications for the financially vulnerable households can be quite devastating. A majority of the bottom of pyramid households (40%) reported loss of income during illness. For such households, which are already spending more than they earn on meeting regular consumption needs, a medical emergency would tip them over the financial edge.

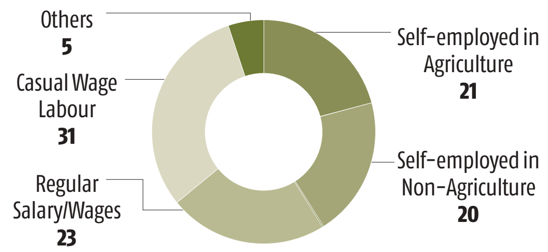
What's worse is that any additional burden on the already high healthcare expenses would push a large proportion of Indian households into the financially vulnerable category. Thus, the all-India share of 30% vulnerable households (or those with negative surplus income) rises to almost 86% in case of an additional burden of ₹1 lakh towards medical expenses.

As high as 27% of Indian households had to cope with a medical emergency involving large unplanned expenditure during 2013-14



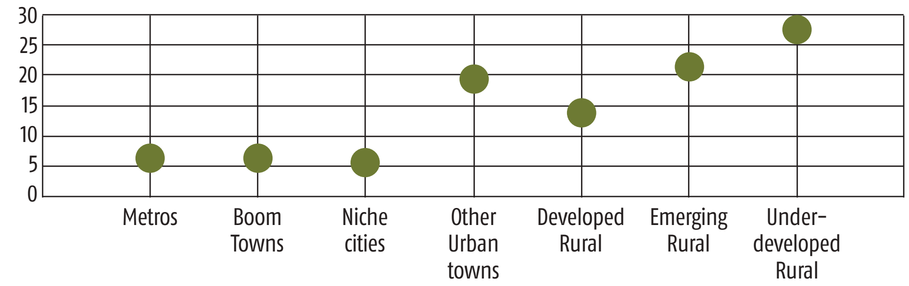
The vulnerable segment of households who earn from casual labour contribute to the largest share of households who made non-routine large health expenditure in 2013-14

Primary occupation % Share

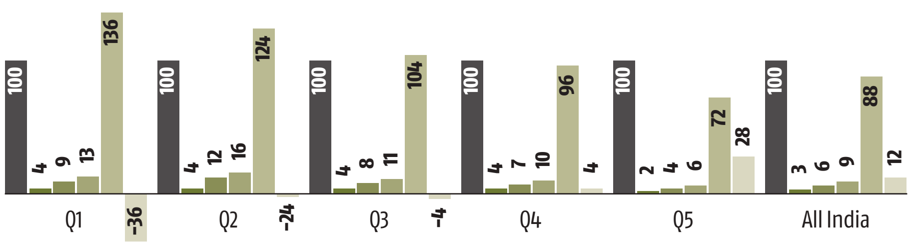


The underdeveloped rural clusters house the major share of India's poorest and yet, they also have the highest incidence of non-routine medical expenditure

Economic Cluster % Share



Among the households who had reported any non regular health expenditure in 2013-14, health expenses accounted for a major share of their consumption expenditure and a key reason for their indebtedness



Even an unplanned financial liability brought forth by a medical emergency has the potential of putting 86% of Indian households into debt

Health Expenditure and Vulnerability

Population Quintile based on Per Capita Income	% Household with NO or negative SURPLUS INCOME (Current Income - Current Expenditure)	% of households vulnerable if additional annual health expenditure is ₹1.0 Lakh	₹3.0 Lakh	₹5.0 Lakh
India - Q1 (Bottom 20%)	54	100	100	100
India - Q2	38	100	100	100
India - Q3	29	98	100	100
India - Q4	25	91	100	100
India - Q5 (Top 20%)	14	52	89	97
ALL INDIA	30	86	97	99

Meeting healthcare expenses continues to be one of the major concerns for households with over half of chief wage earners giving top priority to "personal and family health" above other issues.Similarly, when asked their opinion a large majority felt that the government should focus on "better healthcare" in the coming decade.

Pulses can restore India's nutrition needs

Malnutrition is one of the largest factors suppressing India's spectacular growth. In a country of Mars missions, billionaires and nuclear power, a staggering 46% of all Indian children under five years old are still underweight. The 2015 Global Hunger Index (GHI) Report ranked India 20th amongst leading countries with a serious hunger situation. The study also emphasizes the low quantities of quality food protein in India's food supply. The average per capita consumption of quality protein in India is 37 grams, compared to 47 grams in neighbouring Pakistan and 38 grams in Sri Lanka.

DESPITE INDIA'S 50% increase in GDP since 1991, more than one third of the world's malnourished children live in India. As per NFHS 3 estimates, 59% of pregnant women in India are anaemic with 33% being moderate to severely anaemic. Nearly 43% of all Indians are vegetarian; but even if you don't eat lean meat, a well-planned vegetarian diet shouldn't trigger iron deficiency anaemia, especially if you eat eggs, pulses, leafy vegetables, etc. In fact, pulses can be a very important protein source in an average Indian meal. However, even though Indians consume nearly 35-37% of pulses produced in the world, our consumption has dramatically reduced from about 60 gm per person in 1951 to 37 gm right now, and there is an urgent need to reverse this.

The composition of the food basket in 2013-14 has become slightly skewed towards cereals (29%) with protein share going down to 31% compared to a cereals-protein mix of 24% and 34% respectively in the years 2007-2012, possibly as a result of prolonged food price inflation. Also, as a result of rising pulse prices, middle and lower income households have replaced expensive varieties with cheaper pulses, especially imported ones. It has been observed that when prices stabilize, consumers move back to their original preferences.

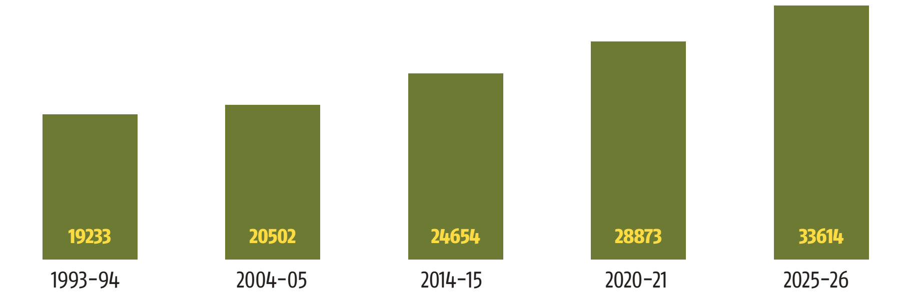
Across all income categories, expenditure on protein foods is more or less the same, i.e. around 29-31%. In proportion terms, richer households spend 29% of their food expenditure on cereals as against over 32% by the bottom 40%. In terms of actual spends, however, rich households (top 20% population) spend twice the amount (₹32,460 annually) on protein foods compared to ₹16,063 for the lowest income households (bottom 20%). The difference can be accounted for by the quality of food consumed as well as the price differential of food products in urban and rural areas.

On the bright side, consumption of milk and milk-based products has gone up, and dairy consumption among rich and poor households in terms of actual expenditure is almost at par (ranging between ₹9000 and 10,800). Only the bottom most 20% households have a significantly lower spend on milk at ₹5,339 per annum.So, while Indians are consuming more cereals and milk products, protein intake has not grown significantly. The primary reason is that cultivation of pulses has not increased and area under production has remained at the 22 to 25 million hectares level for the last forty years.

While the focus on increasing agricultural productivity and experimentation in yield improvement are good long-term strategies, in the short and mid-term interventions are needed to bring more farm land under lentil cultivation. Increasing supply of protein-rich pulses and the consequent lowering of prices would go a long way in a balanced and protein-enriched diet of Indian families in rural as well as urban India. Consumption of pulses betrays a high level of price sensitivity and India's ongoing dependence on pulse imports is likely to intensify over the next decade as low domestic yields fail to keep pace with demand.

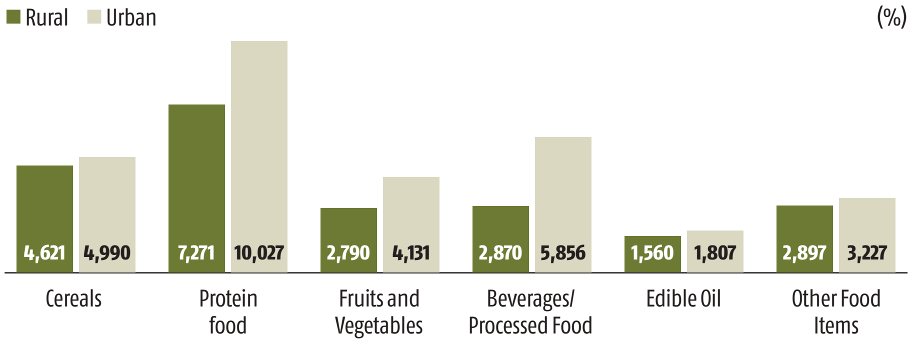
After correcting for inflation, there was hardly any increase in average spending per household on food between 1993-94 and 2004-05 but in the following decade average annual food expenditure increased by around ₹4000 in real terms

Average Annual Spending per Household on Food, All India(₹ at 2004-05 prices)



An average urban household spends 40-50% more on protein-based food, fruits and vegetables and processed foods than its rural counterpart

Average Annual Spending per household on Food Components, All India, 2014-15 (₹ at 2004-05 prices)



The two bottom-most deciles spend less than 40% of the all-India average spending on a meal and less than 60% of what the top two deciles spend

Monetary value of raw material spent by Indian household (in ₹ per meal)

Raw material	Poor vs. Rich		Average Indian meal
	Poor man's meal	Rich man's meal	
Cereals	9.02	19.8	13.23
Protein food			
Pulses and pulse products	1.98	4.81	3.17
Milk and milk products	2.58	10.56	6.41
Egg, fish and meat	3.19	6.77	4.47
Total Protein Food	7.75	22.14	14.05
Other food items	9.96	29.92	18.09
Total Food	**26.73**	**71.85**	**45.37**

Our pulses consumption has reduced dramatically from about 60 gm per person in 1951 to 37 gm right now, and there is an urgent need to reverse this if India has to catch up with neighbouring countries on average per capita consumption of quality protein

Monetary value of raw material spent by vegetarian and non-vegetarian households (in ₹ per meal)

Raw material	Food Habit	
	Vegetarian meal	Non-vegetarian meal
Cereals	11.78	13.91
Protein food		
Pulses and pulse products	4.26	3.17
Milk and milk products	7.84	5.83
Egg, fish and meat	Neg.	5.98
Total Protein Food	12.1	14.97
Other food items	18.55	18
Total Food	**42.43**	**46.88**

Who is addressing the needs of the small investor?

India is a land of savers and the urge to defer current consumption for posterity is imprinted in our DNA. Data suggests that even the bottom of the pyramid households set aside a portion of their meagre cash incomes in an effort to meet future income or expenditure shocks and to provide for their progeny. However, the bulk of the household savings is still in the form of 'cash at home' or in low interest-earning passbook savings. Less than six percent of households had put the bulk of their savings, in 2013-14, in the capital market. This means a large proportion of Indian households will be destined to run behind volatile inflation rates and probably never realise that their hard earned savings will not be worth any substantial amount in real terms in the future when they are unable to earn any longer. At one level this is a problem which emerges from the lack of adequate financial education. But at another it is also the result of the non-transparent functioning of our financial sector as wells as a dearth of financial products targeted at the small investor.

ACCORDING TO A pan India survey conducted by PRICE in 2014 covering 20,000 households, out of the 270 million households with at least one earner, as much as 239.3 million or 88.6% had reported that they had managed to save up some money during the last financial year (2013-14). The propensity to save is naturally highest among households belonging to the highest per capita income quintile (94.7%) and this rate gradually declines and is least for those in the lowest per capital income quintile. Nevertheless, the very fact that close to 78% of the households at the bottom of the pyramid did manage some cash savings for posterity is encouraging.

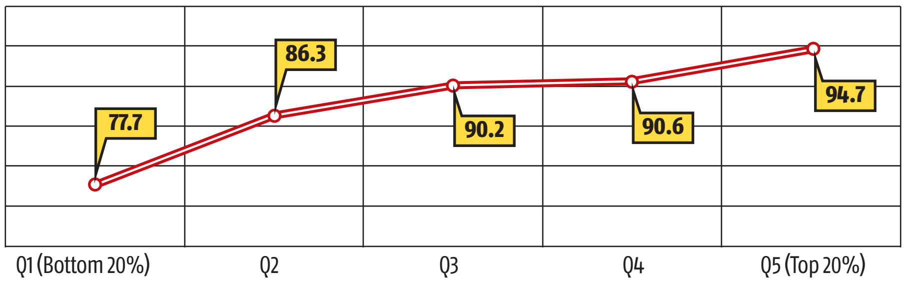
Apart from keeping cash available meet any form of contingencies, the major savings motivations for Indians are for old age security, for medical emergencies and for educating their children. What is noteworthy is that earners from households with lower levels of income are perhaps less inclined to save for retirement as their financial needs are more immediate.

In terms of their cross-market savings portfolio, Indian households at an aggregate level still preferred to have full liquidity, keeping cash at home to meet emergencies. However, with increasing incomes, the use of passbook savings accounts and fixed term deposits through banks and postal savings start to get preference. Together (cash at home and banking instruments), they constitute the preferred savings/investment mode for well over 90% of the households that saved in 2013-14. Capital market linked instruments as a major savings avenue remains abysmally low, mainly confined to only a small proportion of households. When it comes to preferred instruments to save and invest the differences across urban and rural geographies and between male and female earners is also quite apparent. In all likelihood this is a function of the fact that average earnings are relatively lower in rural areas and among women as compared to urban areas and among men in general.

For earners whose number one savings priority is saving up for old age security, the preferred instruments are those offered in banks (including savings accounts and time-deposits - 55.8%). The same trend is also true for those whose primary savings motivation is saving for medical emergencies (59%) as well as those who are seeking to save for their children's education (55%). Using passbook savings or keeping cash at home is not likely to lead to creation of sufficient wealth to meet financial requirements for old age or tuition fees in the coming years, but what we are perhaps seeing here is that by nature the majority of Indians still prefer to hold on to capital guarantee rather than be speculative with their earnings in a fiscal environment which most see as opaque. This is a poor reflection for a country which boasts of one the world's most sophisticated and regulated securities market.

Majority of Indian households save for prosperity irrespective of their economic status

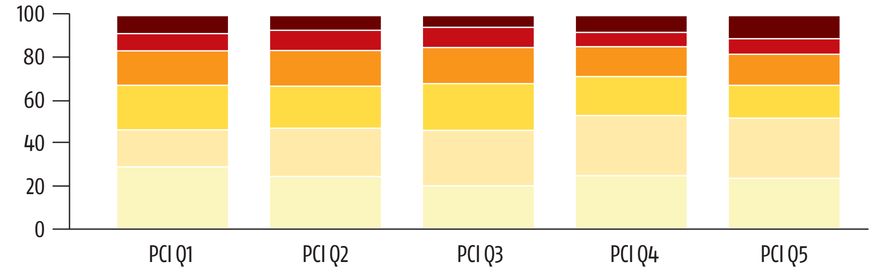
Percentage of savers within PCI quintiles



Long term retirement savings is not in the Indian mindset and is certainly not a priority among the low-income workforce

Principal savings motivations vs. per capita income quintiles

All other reasons · Social/Religious Ceremonies · Education of Children · Medical emergencies · Old Age Security · Contingencies



Very few Indian households except perhaps those at the very top of the income pyramid apportion a significant share of their savings or investments into capital market linked instruments

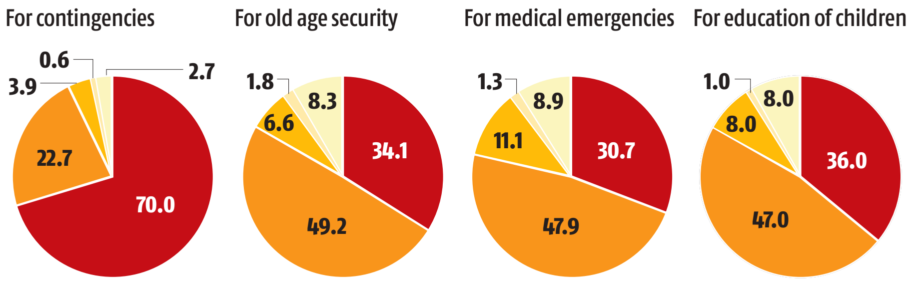
Savings portfolio within households at different PCI quintiles

Portfolio	Q1	Q2	Q3	Q4	Q5
Keep cash at home	59	55	50	46	37
Bank & postal savings(passbook savings, PPF, MIS, and term deposits)	35	37	43	46	52
Capital market linked investments incl. Life Insurance	3	4	5	6	8
Physical assets include real estate, gold and jewellery	0	1	0	0	2
Non formal instruments, incl. SHG, chit funds and NBFCs	3	2	2	2	3

There is a great disconnect between savings motivation and choice of instruments with most investors unlikely to realise any significant accumulations because of the preference for liquidity and capital guarantee

Savings motivation vs. primary savings/investment modes

Keep cash at home · Passbook savings · Term savings instruments in banks/PO/NBFC · Physical assets (gold, jewelry, real estate) · Life insurance and capital market linked investments



Gold investments – looking beyond the glitter

Historically, gold has been valued not only for its vital role in the social and cultural context, but also as an instrument of saving. In the last two decades, Indian households have witnessed rapid changes in their income and expenditure patterns, savings and investments abilities, and a generational shift in attitudes towards wealth accumulation, consumption priorities, and display. Many bits of conventional wisdom about how Indian households perceive and act with respect to gold thus need to be revalidated. While the quantum of household purchases of gold is known, a sharper and more segmented understanding of questions pertaining to 'who, how, and for what purpose' is the need of the hour.

ACCORDING TO THE ICE 360° Survey of 2014 by PRICE, a majority of Indian households – 89% – save and at least 6% households have purchased gold as an investment in 2013-14. There is a huge demand for gold in India across all sections of the society with a whopping 86% of households reporting that they had purchased gold at least once in their lifetime.Nearly 10% of households have purchased gold annually or more frequently, indicating an effective penetration level higher than that of the securities market.

While a little less than half of the surveyed households cited the most important reason for the purchase as gifting for occasions like weddings, child-birth, and festivals, the investment objective behind the demand for gold in India is steadily on the rise. More than one-third of the households reported that they had last purchased gold for the purpose of future investment, including children's education, children's wedding, and for the purchase of property. The investment objective in gold purchase behaviour has been observed to be more prevalent in the southern and northern states as compared to the other three regions.

Jewellery is the most preferred form of gold.Nearly86 %households purchased it in the form of jewellery while only 13 % bought gold in the form of coins or bars (24% in urban).

Naturally, jewellery shops have been ranked as the major points of purchase of gold by most of the households (93%).

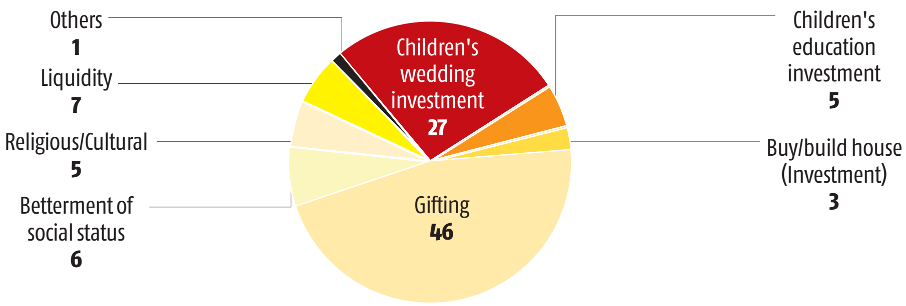
The share of households that took loans against gold is also highest in South India (15%), while the corresponding all-India figure is only 8%, even though Indian consumers exhibit a high level of awareness about the possibility of pledging gold to take loans (78%).

Hallmarking of gold in order to ensure its purity is perceived to be important by more than two-third of the households in India (68%).Some of the new gold investment schemes include depositing gold in banks/post offices, using 'paper gold' and offering gold to recognised builders as security for down-payment in the case of purchase of property. The survey reveals that the gold deposit scheme is the most popular of these three schemes with 43% of the total households expressing their willingness to invest in it. The corresponding figures for 'paper gold' and use of gold as security for down payment schemes are 31% and 22%, respectively.

Households that are rich, highly-educated, and have more stable income sources are found to be relatively more willing to invest in these schemes as compared to others. They also exhibit greater ownership of high-value consumer durables. The average annual household income of the households whose major purpose of gold purchase was investment was ₹246,374, which is 30% higher as compared to that of the others (₹192,755).

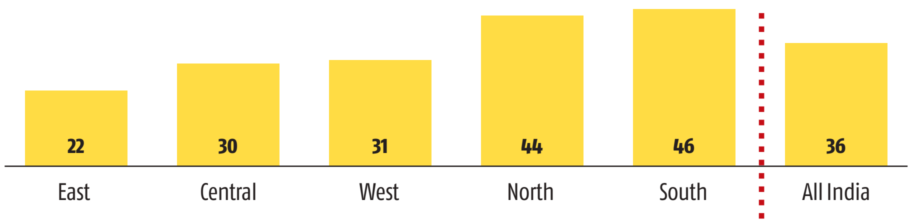
Given that culturally a lot of gold is passed on to the children during their wedding, over 70% of gold purchased could be said to be about gifting and not personal wealth creation

Reasons for gold purchase (% of households, all India)



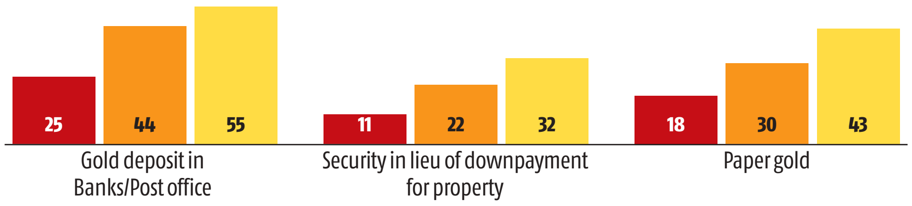
Southern and northern states are likely to hold more promise when it comes to introducing gold-based investment options as part of the financial markets offerings

Proportion of households that purchased gold as a future investment



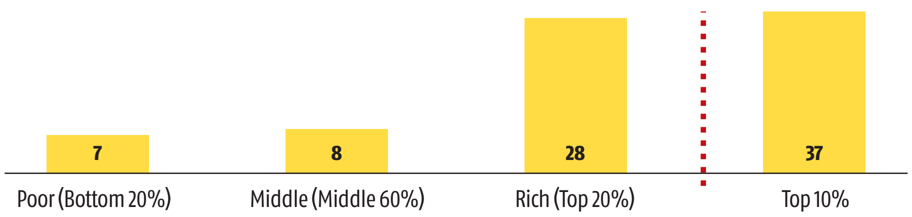
While investment in gold deposit schemes have 43% takers, investment in paper gold is likely to happen only among 'rich' India. Using gold as a collateral for secured loans is also not a popular notion at present

Investment in Gold assets (% takers)



Purchase of gold bars and coins largely limited to the rich households living in urban India

Percentage of households willing to purchase by economic profile (all India)



Profiling of gold purchasers based on year of purchase

Characteristics		Below-par growth	High Growth (2010-2014)	Mixed Growth (2005-2009)	All India (Before 2005)
Average annual household income (₹)		2,49,608	1,93,191	1,47,471	1.97,686
Average annual household expenditure (₹)		1,70,636	1,35,383	1,12,845	1,39,833
Major source of household income	Regular Salary/Wages	26%	21%	14%	20%
	Labour	24%	35%	37%	33%
Highest Education Level	Graduate and Above	31%	18%	12%	21%
	Below Primary	10%	20%	28%	20%
Population Quintile based on per capita income	Top Quintile	31%	22%	16%	23%
	Bottom Quintile	11%	14%	17%	16%
Asset Ownership	Car	7%	3%	3%	4%
(% Households Owning Asset)	Two Wheeler	44%	33%	27%	35%
	Refrigerator	32%	21%	18%	24%
	Washing Machine	12%	6%	5%	8%
	Computer	8%	3%	3%	4%

Improving life insurance penetration can help mitigate vulnerability

India's preference for saving money in cash or passbook savings coupled with limited life insurance coverage especially in rural India indicates a certain vulnerability to financial shocks and inadequate safety nets for the bulk of low income households. As a socialist welfare state which also houses a significant share of the world's poor, we cannot even contemplate accepting an unfunded liability burden of such proportions. The financial vulnerability of Indian households, our spending habits, perceptions about financial security, and misconceptions pertaining to life insurance, all point to the urgent need for taking pragmatic corrective measures.

ACCORDING TO THE 2014 ICE 360° Survey by PRICE, even though at an aggregated level the most preferred mode of savings among Indian households is bank deposits, 68% of India's low income households chose to keep cash at home. Neither of these two modes translate into a prudent investment option especially considering the fact that 47% of India's households in the bottom two income quintiles either have negative surplus income or their outstanding debt burden is in excess of their savings capacity. Also, neither method offers the necessary returns to overcome this situation.These are at best short-term measures of dealing with contingencies.

Ownership of life insurance products, which are considered to be the most effective risk-mitigation tools the world over, has not seen huge growth among Indian households. The survey estimated that by October 2014, only about 30% of India's 270 million households had at least one member with life insurance coverage. Unfortunately, life insurance ownership in India is heavily influenced by factors such as location, education and income levels. For instance, while nearly 45% of households that own life insurance policies are to be found in metro cities, its penetration in boom towns, niche cities and other urban towns is a good 10% higher than in developed rural (33%) and emerging rural (30%), with ownership being as low as 16% in underdeveloped rural. Again, a household with at least one graduate is twice as likely to have someone with life insurance cover (19.4%) than those who have not completed education till primary level.

The current suit of product options is fairly limited for servicing the needs and capacities of the bottom of the pyramid, as is evident from the fact that while 48.3% of households in the top income quintile enjoy life insurance cover, this penetration drops down to only 16.7% among those in the lowest.It is thus clear that those who are relatively more affluent are investing in risk mitigation because they have the means and the awareness to do so while households that are financially vulnerable continue to be at risk.

Universal life coverage cannot be an unfunded liability burden for India. Thus the need of the hour is step up financial literacy levels and offer comprehensive solutions that meet the need of the masses and evolve innovative distribution channels that would suit the largely under-insured rural markets of the country.

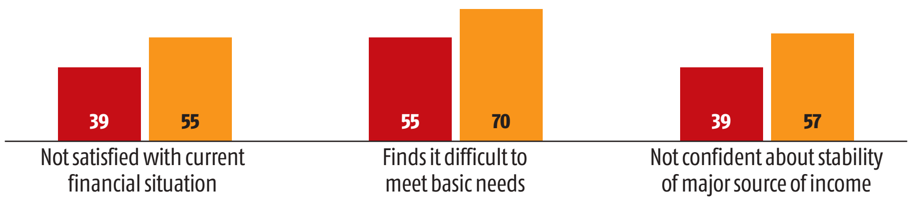
The present government's Jan Dhan Yojana has resulted in increasing the number of bank accounts from 68.7 million in October 2014 to 169 million in July 2015. Given that affordable personal accident and life insurance cover also figure as part of the scheme's portfolio, it would seem that India has finally taken the right step towards a new phase of improved financial security.

Nearly half of all Indian households are either spending more than what they earn or have outstanding debts which in all likelihood is beyond their ability to service at their current income levels

Population quintile based on per capita income	Households in million	Proportion of households with negative discretionary income	Proportion of households with debt as a %age to income > saving as a %age to income
Bottom 40%	91.8	35%	12%
Next 40%	115.8	14%	10%
Top 20%	62.4	5%	6%

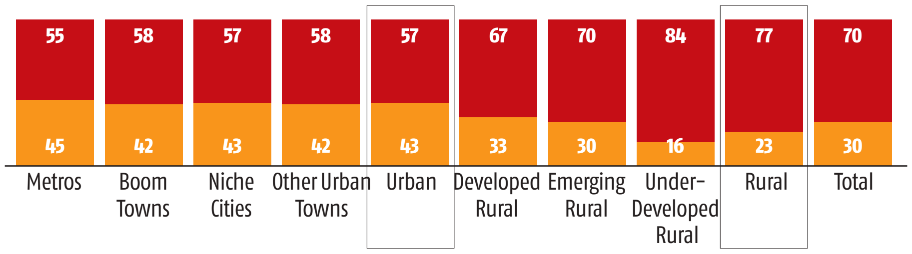
Households with no life insurance cover are also financially vulnerable and therefore increasing penetration needs to be treated not as a financial literacy issue but that of social security

Percentage of households with/without LI cover



Nearly 190 million households have no members with life insurance cover and 43% of such households are located in underdeveloped rural clusters that are not very lucrative for the industry

Life insurance penetration across economic clusters (%)



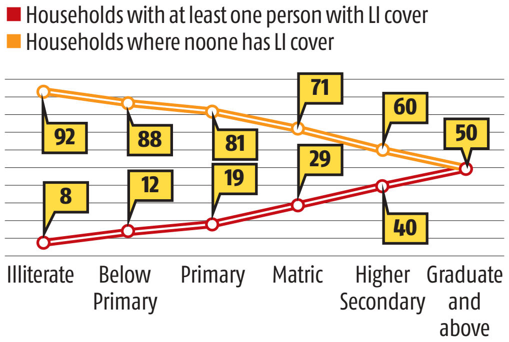
Ironically in India the people who need the insurance safety net the most find themselves outside the ambit of its coverage, which raises serious questions regarding products and distribution

Insured vs. uninsured households: A profile by major source of household income

Source of income	Share of insured households (%)	Surplus Income (Left over income after deduction of total expenditure, ₹/annum)		% of households own car	
		Insured households	Uninsured households	Insured households	Uninsured households
Self-employed in Agriculture	27	34474	20159	9	2
Self-employed in Non-Agriculture	38	62334	38940	24	6
Salaried	51	94533	45668	23	5
Labour	15	11167	12763	3	1
Others	22	79245	27824	26	2
Total	**30**	**60017**	**24562**	**17**	**3**

Complexity in product offerings coupled with niche marketing efforts which are urban centric have resulted in a degree of distrust and alienation among those who are not educationally savvy and are not considered 'financially literate'

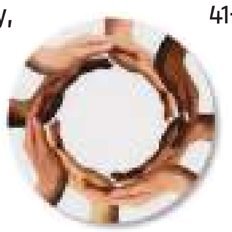
LI coverage by highest education level within households



India's GDP crosses the $2 trillion mark but inclusive growth remains elusive

India's GDP crossed the $2-trillion mark in 2014. While India took 60 long years to hit the $1-trillion mark, it added the next trillion in just seven years and IMF predicts that India's GDP would cross the milestone of $3 trillion by 2019. In income terms, even though the bulk of this growth has been driven by the 'rich' 20% households, the bottom 40% has also enjoyed an 8%+ CAGR between 2004-05 and 2013-14. But inclusive growth goes far beyond just income and encapsulates elements such as equity, stability, tolerance and respect for diversity, equality of opportunity, and participation in the development process. Sadly, while emergent India makes rapid strides as a world power in the 21st century, it has a long way to go towards becoming an inclusive society.

THE WORLD SUMMIT for Social Development held in March 1995 established the concept of social integration to create an inclusive society as one of the key goals of social development. The Copenhagen Declaration and Programme of Action, a key outcome of the Summit, pledged to make the eradication of poverty, full employment and social integration overriding objectives of development. Member states made a commitment to promote social integration through fostering inclusive societies that are stable, safe, just and tolerant, and respect diversity, equality of opportunity and participation of all people, including disadvantaged and vulnerable groups and persons, and significant policy commitments were made in the Millennium Declaration (2000).



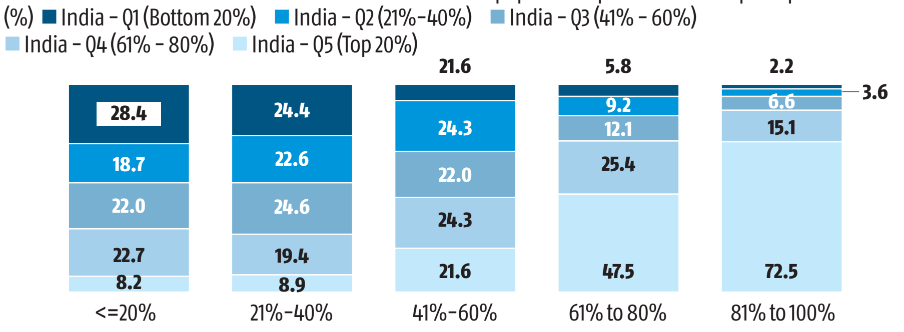
Thus, "inclusion" is the amalgamation of various outcomes, including equity of participation in the labour market, financial access, social integration, access to critical infrastructure that determine quality of life, access to networks and opportunities, and a fulfilment of our fundamental right to education, especially skill based education. Using the ICE 360° Survey data of 2014, this paper seeks to arrive at a holistic measure of inclusion of Indian households and what contributes to differential degrees of inclusion.

Five types of individual inclusion measures were constructed and then amalgamated and indexed for a maximum score of 100 to form the final inclusion index score for each surveyed household. The modal class (of inclusion rate that ranges between 0 and 100) is 41-60% which accounted for 36.2% of Indian households or 97.7 million. The all India inclusion average being 45.8 and median being 45, which is actually decisively low considering nearly 140 million households register a sub-par inclusion rate. While nearly 59% of India's earning households have a level of inclusion which is 40 and above, there are wide variations to be observed across background variables. For instance, the average inclusion rate for urban households is just over 55 but dips to around 41 for rural households. The same analysis when done using population quintiles based on per capita income, we find that while the least included (having an inclusion rate within the lower 40 range) are constituted by households across four income quintiles (except for the richest 20%) in nearly equal measure, the most included households are almost exclusively those who are part of the highest income quintile (72% contribution).

India as a whole has enjoyed significant economic growth over the past decade. The average annual household income have grown from ₹219,500 in 2004/5 to ₹335,600 in 2013/14. And we expect this to go up to ₹475,000 by 2020. The bottom two income quintiles have also experienced the benefits of this growth with their average annual household incomes growing by over 2.2 times over the past decade. But despite such growth, 111.2 million Indian households remain excluded from India's growth story (less than 40 inclusion rate) and nearly 50% of them belong to the bottom two income quintiles. In an effort to throw light on specifics of causality behind such low levels of inclusion, a factor loading exercise was run using the overall inclusion index as the dependant variable and cluster location, PCI based income quintiles, and each of the 5 constituent inclusion indices as the 7 independent variables. Surprisingly, the findings of the factor analysis reveal that while each of the 5 constituent indices exerted significant influence of the overall inclusion score, labour market participation and level of education have had the most influence on outcomes than any other construct. This is reflective of the fact that while households with at least one graduate enjoy an inclusion score of 65.5, the rate for households with no member having crossed primary level falls to only 24.7. Similarly, the inclusion rate for casual wage labourers is 32.8 but that for salaried employees of any kind is nearly 25 point higher. This wide level of variation is symptomatic of these two inclusion categories and that's why they have exerted the highest influence on the overall scores. It is also why it is imperative that policy makers need to stand up and take cognisance of this fact that as a country we need to allocate necessary resources to not only universalise elementary education but nurture skill based education to increase employability, and at the same time ensure an environment that encourages and promotes entrepreneurship.

Close to half of the households in the lowest two income quintiles have less than 50% inclusion rate whereas nearly three-fourths of the households having the highest inclusion rate are India's richest

Distribution of households across levels of inclusion for each population quintile based on per capita income (%)



Indicators used for the construct of the inclusion indices

Inclusion	Indicator	Grading variable
Labour market participation	CWE is a self-employed cultivator	Size of cultivable holdings
	CWE is a self-employed in allied agriculture activities	Equated with medium farmers
	CWE is a self-employed in non-farm activities	Extent of specialization and order of economic activity
	CWE is a regular salaried or wage earner	Grade of employment + availability of job contract, paid leave, social security
	CWE is a casual labour	With and without job contract and/or paid leave
Access to education	Highest level of education in household	Years of formal education
Access to amenities and infrastructure	Tap water within premises, LPG connection, electricity connection, toilet within premises, separate kitchen and presence of AWR within locality	Inverse of access
Financial	Household having some formal investment or loan; at least one member of the household having a bank account; at least one member having life insurance	Satisfaction of all three, two, one or none of the criteria
Social	Availability of Aadhar card; CWE of household being a member of any social institution/group/NGO; CWE being highly attached to neighborhood; having been subjected to any sort of to discrimination	Satisfaction of all four, three, two, one or none of the criteria

Mood of the Nation

The Indian consumer is feeling very good right now. Across the rich and the poor, and those who live in urban and rural India, there is a strong belief that the good times are around the corner and their financial situation would see an improvement over the next three years. With fuel prices having stabilized and inflation finally coming under control, this optimism should translate to a growing demand for goods and services in the marketplace coming from all segments of society. Companies now have to gear themselves to meet the imminent surge in demand.

MOOD OF THE NATION'S citizenry can be gauged through many lenses. One such lens is financial optimism and how the chief wage earners of households view their past, present and future financial well-being. The ICE 360° Survey of 2014 conducted by PRICE had asked the CWEs to reflect on how the financial situation of their respective households had changed in the past three years. Discounting the 12% respondents who could not/would not venture an opinion, the financial situation of 41% of urban households and 30% of rural households was stated to have improved, while at an all India level, half of households had reported it had remained more or less the same. When queried as to what their expectations were for the coming three years, little over half of the households across both urban and rural locations appeared optimistic and expected an improvement in their financial situation.

A more pertinent view would be to look at how the past compares with their future outlook as it would help us categorise households by consumer sentiment and perhaps even provide a glimpse of how the consumer market is likely to evolve. For the sake of simplicity, we have classified households as pessimists and optimists depending on how they view their past and future financial situation and outlook.

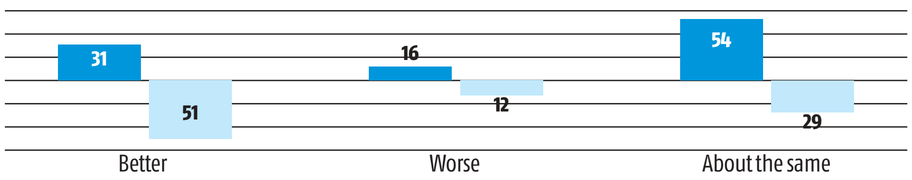
The data clearly indicates that at an aggregate level, consumers are not complaining and are mostly optimistic about the future (57% being optimists). However, the feeling of optimism was more among urban citizens (60%) and was marginally lower among residents of rural India (55%).

From a marketer's point of view, it would be useful to try and profile these optimists as they are likely to be the engines of growth in the consumer economy going forward. In the urban context, while 6.8 million households or 28% were from metros, a whopping 11 million or 45% are from the small towns where aspirations are undergoing a rapid change at a faster pace than what the market can service.

On the rural side, while half of the optimistic households reside in developed rural or emerging rural districts, the other half is from underdeveloped rural districts where distribution of goods and services can still be a logistical nightmare. Nevertheless, the fact that 63% of optimistic households are from rural areas is indicative of a general feeling of anticipation about a brighter future among urban as well as rural residents. This is also reflective of the fact that while the affluent top 20% account for 30% of optimists, 55% belong to Middle India (the next 60%). In terms of occupation, there is a very even spread across all the major occupation groups, which further highlights the fact that every consumer class–ranging from labourers to the salaried–believe that the change in government will usher in better times.

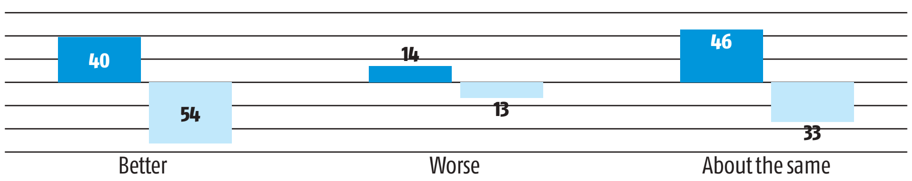
In rural areas, whatever little pessimism was expressed regarding any change in their financial situation in the past 3 years has been replaced by an overwhelming sense of optimism about the future

Outlook regarding change in financial situation: Last 3 years vs. Next 3 years



In urban areas, there is a general air of optimism with 40% households reporting improvement in their financial situation over the past 3 years and this feeling extends to their outlook for the future as well

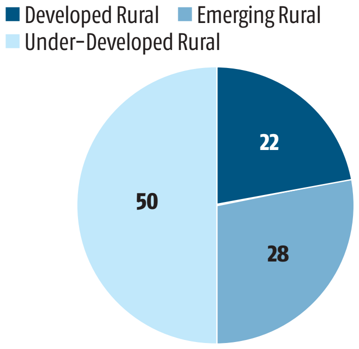
Outlook regarding change in financial situation: Last 3 years vs. Next 3 years



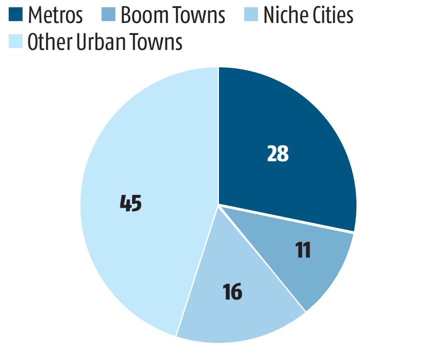
Presence of households who are in an optimistic mood about their financial well being are to be found across all types of development clusters more or less in proportion to their share of total households. While the tendency would be to concentrate on developed and emerging rural and in metros, boom towns and niche cities, avoiding servicing the 50% of the potential spenders living in the hinterland cannot be deferred for long

(%)

Profiling the optimists: Distribution by rural cluster

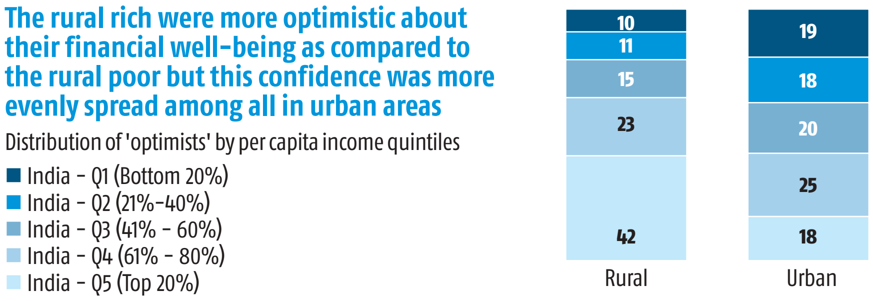


Profiling the optimists: Distribution by urban cluster



The rural rich were more optimistic about their financial well-being as compared to the rural poor but this confidence was more evenly spread among all in urban areas

Distribution of 'optimists' by per capita income quintiles



Households that are optimistic about their financial well being are to be found across all types of development clusters more or less in proportion to their share of total households and this lends for a strong case for servicing even the rural hinterland where 50% of potential spenders live

(%)

Income distribution in 2020

The Indian economy has undergone a dramatic transformation, especially in the last two decades. In the post-1991 period the emergence of growth-friendly reforms has contributed to a consistent rise in income levels of households.With the economy expected to grow at 7.5%from 2013 to 2021, increasing investment in infrastructure development and access to public amenities will play a crucial role in more inclusive growth.Given the rapid pace of growth,this article explores who will stand to benefit the most and the emerging issues that policy makers will need to tackle.

INDIA'S ECONOMIC LANDSCAPE is ever-changing and we examine how this will play out in 2020. The past decade (2004-05 to 2013-14) has seen a decline in the top quintile's share in overall income of households. The apparent gainers have been mostly distributed across the bottom three quintiles while quintile 4 has remained static. While this surge in share of income of the bottom quintiles is definitely a positive sign for inclusive growth, this is just one aspect of the reality.

According to ICE 360° Survey (2014) estimates, between 2004 and 2014, the real income of "poor" households more than doubled as compared to a 30% rise for "rich" households. Despite this, the income gap between the bottom and top of the pyramid incrementally increased in the same period, taking into account the fact that the past decade witnessed a high growth rate of over 6 percent.It is here that growth percentages can be misleading. In real terms, we assume that average household sizes within each quintile in 2020 will remain more or less the same as they are in 2013-14 (with larger households sizes in the lower quintiles, the ratio of household income to PCI is much lower here than it is among the upper quintiles). Nearly 32% of the gross increase in national income contributed through households in 2020 over 2013-14 would be absorbed by the top quintile alone and 52% by Q4 and Q5 together, indicating that these households will define and drive consumer demand in the second half of the current decade.

A boost in government's investment in infrastructure and development-specific public spending has definitely raised the expectations of forecasters. If both internal and global market conditions remain constant, our economy is slated to grow at approximately 7.5 percent annually for the remaining years of the decade. The expanding economy will help create more opportunities for wealth generation across all levels of the income pyramid. However, the affluent are the ones who will benefit the most from this period of high economic growth. Trends indicate that income growth will slow down for the bottom quintiles in the coming years while top quintiles will experience resurgence in income growth.By 2020, the income gap between Q4 and Q3 would reduce drastically and with households in Q2 expected to grow at the highest CAGR, we will have a homogeneous band for "Middle India" which consists of 60% of households, with average household income at ₹392,400 and together accounting for 50.2% of the national household income in 2020. However, the fact remains that Middle India will continue to be very different from Rich India. This disparity is possibly a result of the marked difference in their access to drivers of growth, namely,education and labour market participation.

While these projections are based on annual growth averaging 7.5 percent, it is not set in stone.With a fast growing population, a larger economy will bring its own host of issues that will need effective tackling. Rapid urbanisation coupled with a shift to non-agrarian employment will play a critical role in determining well-being of households. Simultaneously,pressure on urban infrastructure is expected to rise to alarming levels and could negatively impact these projections.

The share of the top 20% in India's national household income will decrease by 2020 with the biggest gainers being households in the 2nd and 3rd income quintiles - but in absolute terms the gap between the top and bottom 20 will become wider

Share of India's Income %

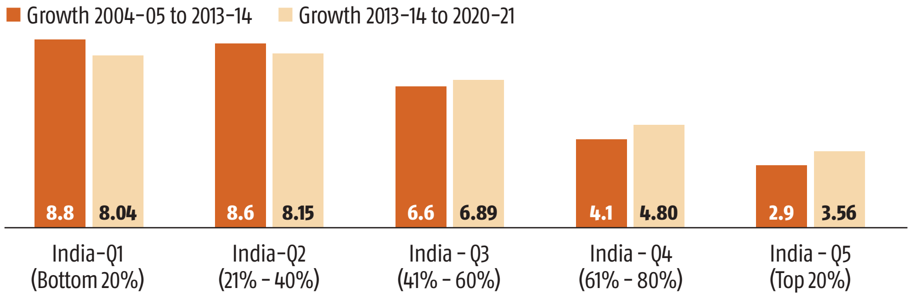
	2004-05	2013-14	2020-21
India-Q1 (Bottom 20%)	5.2	6.6	7.6
India-Q2 (21% - 40%)	8.7	11.0	12.6
India - Q3 (41% - 60%)	12.8	15.0	16.2
India - Q4 (61% - 80%)	20.6	21.1	20.6
India - Q5 (Top 20%)	52.7	46.1	42.6
All India	**100.0**	**100.0**	**100.0**

Income/HH (₹000)

	2004-05	2013-14	2020-21
India-Q1 (Bottom 20%)	64.1	136.7	224.6
India-Q2 (21% - 40%)	99.2	208.6	344.6
India - Q3 (41% - 60%)	139.1	247.9	384.5
India - Q4 (61% - 80%)	220.1	315.8	437.1
India - Q5 (Top 20%)	519.2	669.3	860.1
All India	**219.5**	**335.6**	**475.4**

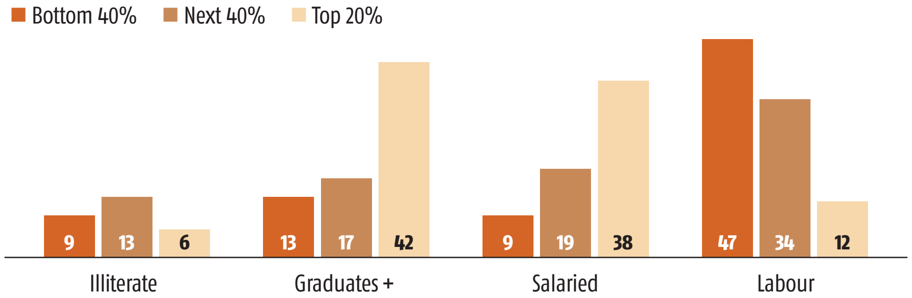
Household incomes of lowest two income quintiles will continue to grow at above 8% due to the dual effects of government's welfare measures and a low base but will stagnate thereafter, while for all others it is expected to increase till 2020

CAGR of household income between 2004-05 and 2013-14



The top quintile will always be significantly different from the rest of India with respect to their occupation structure and access to higher education, giving them the necessary edge in labour market participation

Highest level of education within household vs their economic position



By 2020, just over 60% of the Indian households will form a fairly homogeneous segment with sufficient earning capacity to be an active participant in India's growth story into the next decade - but till then, the drivers of growth will continue to be the top 20

India's story in 2020 across income groups

	Share of households	Share of national household income	Average household income	Average PCI
Rich India in 2020	16.3%	42.0%	860100	211156
Middle India in 2020	60.6%	50.3%	392400	84788
Poor India in 2020	23.1%	7.7%	224600	39020

INTRODUCTION TO THE UPCOMING INDIAN CONSUMER ECONOMY AND CITIZENS' ENVIRONMENT SURVEY OF 2016

The upcoming ICE 360° Survey of 2016 will map the mind of the Indian consumer like never before

PRICE IS ABOUT TO launch its ICE 360° Survey 2016 on how India earns, consumes and saves and this gives us another opportunity to cover issues of direct relevance to policy makers and business strategists alike in a more comprehensive manner. All our ICE 360° Surveys carry the operational goals of making reliable and insightful people-level information available in the public domain; enabling better policy formulation, regulatory response and business strategy development. As an organization, our aim will always be to play a leading role in shining the light on blind spots and to bring a "human face" or people-centricity into India's public policy debate and discourse, which today is mostly focused on outlays not outcomes, and on macro-economic or supply side variables. The ultimate objective is to make both ECONOMIC and SOCIAL well-being of Indian citizens the end goal of policy and business.

The ICE 360° Survey of 2016 is larger in scope and size, covering 300,000+ households, through a household listing exercise, and the emphasis is on a more detailed survey of 60,360 households. Geographically, the sample will be drawn from across 215 districts, 1217 villages and 132 towns spread across 25 major states. The survey is designed to be multi-dimensional, capturing detailed information on household characteristics, socio-demographic details of all earners, social, political and financial inclusion, access to welfare, household level income, itemized consumption expenditure and debt, savings and investment behaviour, savings motivations, financial optimism, asset ownership and purchase intentions, distress migration, food security, and labour market participation.

What is perhaps of special interest is that nearly a third of the sample will consist of panel data, i.e. we will cover the same households that we did in 2014. This is an exciting opportunity to take a longitudinal view of how the Indian consumption landscape has evolved.Given the paucity of data and the excessive reliance of policy makers and academicians on NSS data, the ICE 360° Survey data will provide an alternative like no other. For instance, estimation of vulnerability can now go beyond consumption expenditure and can be linked to various occupational traits, agro-climatic zones, highest education level, access to infrastructure and welfare measures, etc. This will enable formulation of policies and programmes that can be better targeted and have higher impact.

For corporate India, this will be the only open source data available that focuses on profiling the Indian consumer and all the internal and extraneous factors that influence their current state of well-being and consumption decisions. The granularity of the data will allow those engaged in retail distribution (of products or finance) to make business plans for the future based on trends and projections thrown up by our survey.

Findings from the household listing component of the India's Citizen's Environment & Consumer Economy, ICE 360° Survey of 2016 is expected to be available from March 2016 while the analytics based on the main survey will be released from the fourth quarter of 2016. PRICE's work will be disseminated through seminars and conferences and through extensive collaboration with leading dailies and publications. A large part of our work will be open source and will be made available on our website (www.ice360.in) for public consumption. Survey based reports, mass market publications, sectoral reports, business briefs, occasional papers and periodicals - available off-the-shelf and written by industry experts using "ICE 360° Survey" as the research secretariat - will be made available on-line for subscription.

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